

NEW ISSUES—BOOK-ENTRY ONLY

STANDARD & POOR'S RATINGS

Districts' Ratings excluding Piedmont Unified School District: "SP-1+"
 Piedmont Unified School District Rating: "SP-1"
 See "MISCELLANEOUS — Ratings" herein.

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on each issue of Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the Notes issued in the name of the Districts identified below as "Bank Qualified" are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, the interest on each issue of Notes is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Matters" herein.

<p>\$4,600,000 <i>04-479</i> ALAMEDA UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY)</p> <p>\$8,500,000 <i>04-482</i> CUPERTINO UNION SCHOOL DISTRICT (SANTA CLARA COUNTY)</p> <p>\$9,500,000 <i>04-486</i> FREMONT UNION HIGH SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p> <p>\$3,500,000 <i>04-489</i> MILPITAS UNIFIED SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p> <p>\$2,500,000 <i>04-492</i> RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT (SONOMA COUNTY)</p>	<p>\$2,700,000 <i>04-480</i> ALBANY UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED</p> <p>\$3,500,000 <i>04-483</i> DUBLIN UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED</p> <p>\$6,250,000 <i>04-487</i> LOS ALTOS SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p> <p>\$5,230,000 <i>04-491</i> PETALUMA JOINT UNION HIGH SCHOOL DISTRICT (SONOMA COUNTY) BANK QUALIFIED</p> <p>\$4,000,000 <i>04-493</i> SAN LORENZO UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED</p> <p>\$5,000,000 <i>04-496</i> SUNNYVALE SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p>	<p>\$5,460,000 <i>04-481</i> CERES UNIFIED SCHOOL DISTRICT (STANISLAUS COUNTY) BANK QUALIFIED</p> <p>\$6,000,000 <i>04-485</i> EVERGREEN SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p> <p>\$3,000,000 <i>04-488</i> LOS GATOS UNION SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED</p> <p>\$3,500,000 <i>04-490</i> PIEDMONT UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED</p> <p>\$13,000,000 <i>04-495</i> SEQUOIA UNION HIGH SCHOOL DISTRICT (SAN MATEO COUNTY)</p>
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2004 TAX AND REVENUE ANTICIPATION NOTES

Dated: Date of Delivery

Due: June 30, 2005

The Notes consist of separate and distinct issues of Notes. The Notes of each District have been authorized, sold, and issued, and are secured, independently by or on behalf of each District. No District will pay any other District's unpaid obligation on its Notes, or make up any deficiency in Pledged Revenues deposited in any other District's Repayment Fund. See "DEFINITIONS" herein.

The Notes of each District are by statute general obligations of that District. The principal amount of Notes, together with interest thereon, will be payable from taxes, revenue, and other unrestricted moneys which are received by a District for the fiscal year 2004/05 which are generally available for the payment of current expenses and other obligations of such District. As security for payment of the Notes, the Districts have pledged to deposit in the Repayment Fund at certain times prior to June 30, 2005, moneys sufficient to pay principal of, and interest on, the Notes. See "THE NOTES — Security and Sources of Payment" herein.

The Notes are issued in denominations of \$1,000 or integral multiples thereof. All principal of and interest on the Notes is payable upon maturity (as described herein under "THE NOTES — General Provisions"). The Notes are to be delivered as fully registered Notes, without coupons and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Notes. Purchases will be made in book-entry form only. The Notes are not subject to redemption prior to maturity. See "THE NOTES — General Provisions" herein.

The following firm, serving as financial advisor to the Districts, has structured this financing:



The interest rate on each issue of Notes is shown on the inside of this cover page.

Each issue of Notes will be offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. It is anticipated that each issue of Notes in book-entry only form will be available for delivery through DTC in New York, New York, on or about July 1, 2004.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

RECEIVED
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 COUNTY OF ALAMEDA DEPT
 OF TREASURY/COMMISSION

<u>Principal Amount</u>	<u>Issuer</u>	<u>Coupon Rate</u>	<u>Reoffering Yield</u>
\$ 4,600,000	Alameda Unified School District	3.00%	1.58%
\$ 2,700,000	Albany Unified School District	3.00%	1.64%
\$ 5,460,000	Ceres Unified School District	3.00%	1.58%
\$ 8,500,000	Cupertino Union School District	3.00%	1.58%
\$ 3,500,000	Dublin Unified School District	3.00%	1.61%
\$ 6,000,000	Evergreen School District	3.00%	1.53%
\$ 9,500,000	Fremont Union High School District	3.00%	1.53%
\$ 6,250,000	Los Altos School District	3.00%	1.52%
\$ 3,000,000	Los Gatos Union School District	3.00%	1.55%
\$ 3,500,000	Milpitas Unified School District	3.00%	1.65%
\$ 5,230,000	Petaluma Joint Union High School District	3.00%	1.58%
\$ 3,500,000	Piedmont Unified School District	3.00%	1.65%
\$ 2,500,000	Rincon Valley Union Elementary School District	2.50%	1.55%
\$ 4,000,000	San Lorenzo Unified School District	3.00%	1.58%
\$13,000,000	Sequoia Union High School District	3.00%	1.53%
\$ 5,000,000	Sunnyvale School District	3.00%	1.58%

No dealer, broker, salesperson or other person has been authorized by the Districts to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Districts. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The summaries and references to documents, statutes, and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each such document, statute, and constitutional provision.

The information set forth herein, other than that provided by the Districts, has been obtained from sources which the Districts believe to be reliable. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Districts since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE PRICES AND OTHER TERMS OF THE OFFERING AND SALE OF THE NOTES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER SUCH NOTES ARE RELEASED FOR SALE AND SUCH NOTES MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL SUCH NOTES INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF NOTES, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES FOR SUCH NOTES AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION CONTAINED IN SECTION 3(a)(2) OF SUCH ACT.

PARTICIPATING DISTRICTS

\$4,600,000 ALAMEDA UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY)	\$2,700,000 ALBANY UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED	\$5,460,000 CERES UNIFIED SCHOOL DISTRICT (STANISLAUS COUNTY) BANK QUALIFIED
\$8,500,000 CUPERTINO UNION SCHOOL DISTRICT (SANTA CLARA COUNTY)	\$3,500,000 DUBLIN UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED	\$6,000,000 EVERGREEN SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED
\$9,500,000 FREMONT UNION HIGH SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED	\$6,250,000 LOS ALTOS SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED	\$3,000,000 LOS GATOS UNION SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED
\$3,500,000 MILPITAS UNIFIED SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED	\$5,230,000 PETALUMA JOINT UNION HIGH SCHOOL DISTRICT (SONOMA COUNTY) BANK QUALIFIED	\$3,500,000 PIEDMONT UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED
\$2,500,000 RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT (SONOMA COUNTY)	\$4,000,000 SAN LORENZO UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED	\$13,000,000 SEQUOIA UNION HIGH SCHOOL DISTRICT (SAN MATEO COUNTY)
	\$5,000,000 SUNNYVALE SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED	

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Oakland, California

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Oakland, California

San Mateo County
Office of the Treasurer-Tax Collector
Redwood City, California

Santa Clara County
Department of Finance
San Jose, California

Sonoma County
Office of the Treasurer-Tax Collector
Santa Rosa, California

Stanislaus County
Office of the Treasurer-Tax Collector
Modesto, California

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OFFICIAL STATEMENT

\$4,600,000 ALAMEDA UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY)	\$2,700,000 ALBANY UNIFIED SCHOOL DISTRICT (ALAMEDA COUNTY) BANK QUALIFIED	\$5,460,000 CERES UNIFIED SCHOOL DISTRICT (STANISLAUS COUNTY) BANK QUALIFIED
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	\$5,000,000 SUNNYVALE SCHOOL DISTRICT (SANTA CLARA COUNTY) BANK QUALIFIED	

2004 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTION

This introduction is not a summary of this official statement (the "Official Statement"). It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of each issue of Notes to potential investors is made only by means of the entire Official Statement.

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of each issue of Notes, as defined and described more fully herein. See "DEFINITIONS" herein.

Separate Issues

The Notes consist of separate and distinct issues of Notes. The Notes of each District have been authorized, sold, and issued, and are secured, independently by each District. No District will pay any other District's unpaid obligation on its Notes, nor make up any deficiency in Pledged Revenues deposited in any other District's Repayment Fund. See "DEFINITIONS" herein.

The Districts

The Districts, as defined in **"DEFINITIONS"** herein, are public school districts operating within the State of California. More detailed information regarding the area served by, the student population, and the financial position of each District is contained in separate sections for each respective District. For a more detailed description of each individual District, see the appropriate County and District section.

Purpose of the Notes

Proceeds of the Notes will be used and expended by each District for any purpose for which such District is authorized to expend funds from its general fund, including, but not limited to, current expenses, capital expenditures, investment and reinvestment and the discharge of any obligation or indebtedness of such District.

Authority for Issuance of the Notes

The Notes are issued pursuant to certain provisions of the California Government Code and pursuant to the Authorizing Resolutions, as defined in **"DEFINITIONS"** herein, adopted by each District's governing board and by the Board of Supervisors of the appropriate County. See **"DEFINITIONS"** and **"THE NOTES — Authority for Issuance"** herein.

Sources of Payment for the Notes

The Notes of each District are by statute general obligations of that District. The principal amount of the Notes, together with interest thereon, will be payable from Unrestricted Moneys, as defined in **"DEFINITIONS"** herein. As security for the payment of principal of and interest on an issue of Notes, the applicable District has pledged certain Pledged Revenues, as defined herein, to be deposited in a Repayment Fund, as defined herein, at certain times prior to June 30, 2005. In the event of bankruptcy, the rights of Noteowners regarding the deposit of the respective Pledged Revenues into the respective Repayment Fund may be subject to the discretion of Bankruptcy Court. See **"THE NOTES — Security and Sources of Payment"** herein.

Description of the Notes

General. Each issue of Notes will be issued in denominations of \$1,000 or any integral multiple thereof. Principal of and interest on the Notes will be payable at maturity. The Notes are not subject to optional redemption prior to maturity. See **"THE NOTES — General Provisions"** herein.

Registration, Transfers and Exchanges. The Notes will be issued in fully registered form, without coupons, and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Notes and all transfers and exchanges will occur through book-entries made by DTC. See **"THE NOTES — Book-Entry System"** and **"— Discontinuation of Book-Entry System; Payment to Beneficial Owners"** herein.

Payments. Principal of and interest on the Notes is payable upon maturity. See **"THE NOTES — General Provisions"** herein.

Redemption. The Notes are not subject to optional redemption prior to maturity. See **“THE NOTES — General Provisions”** herein.

District Investments

Proceeds from the sale of the Notes will be deposited in the Treasury of the County appropriate to each District in a proceeds fund to the credit of the District. Monies in such proceeds fund will be invested by the County Treasurer in the County pool or in other investments as permitted by the laws of the State of California. See **“THE NOTES — Investment of Note Proceeds”** herein.

Substantially all operating funds of each of the Districts are invested in the Treasury of the County in which the individual District is located. Generally, the County Treasurer pools County funds with school district funds and funds of other public agencies and invests the cash. See **“GENERAL SCHOOL DISTRICT INFORMATION — County Investment Pools”** herein.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on each issue of Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the Notes issued in the name of the Districts identified as “Bank Qualified” on the cover of this Official Statement are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, the interest on each issue of Notes is exempt from California personal income taxes. See **“LEGAL MATTERS — Tax Matters”** herein.

Professionals Involved in the Offering

Kelling, Northcross & Nobriga, A Division of Zions First National Bank, is the financial advisor to each of the Districts with respect to the Notes. All proceedings in connection with the issuance of the Notes are subject to the approval of Quint & Thimmig LLP, Bond Counsel to each of the Districts with respect to the Notes. Both Kelling, Northcross & Nobriga and Quint & Thimmig LLP will receive compensation from each of the Districts contingent upon the sale and delivery of the Notes.

Offering and Delivery of the Notes

The Notes are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Bond Counsel. It is anticipated that the Notes in book-entry form will be available for delivery through DTC in New York, New York on or about July 1, 2004.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. See **“MISCELLANEOUS—Continuing Disclosure”** herein.

Copies of documents referred to herein and information concerning the Notes are available from each district. The Districts may impose a charge for copying, mailing and handling.

<u>Issuer</u>	<u>Address</u>	<u>Phone</u>
Alameda Unified School District	2200 Central Avenue, Room 105E Alameda, CA 94501-4450	510-337-7082
Albany Unified School District	1000 San Pablo Avenue Albany, CA 94706	510-528-5733
Ceres Unified School District	2503 Lawrence Street Ceres, CA 95307	209-538-9439
Cupertino Union School District	10301 Vista Drive Cupertino, CA 95014-2040	408-252-3000
Dublin Unified School District	7471 Larkdale Avenue Dublin, CA 94568-1500	925-828-2551
Evergreen School District	3188 Quimby Road San Jose, CA 95148-3022	408-270-6800
Fremont Union High School District	589 West Fremont Avenue Sunnyvale, CA 94087	408-522-2200
Los Altos School District	201 Covington Road Los Altos, CA 94024-4030	650-947-1150
Los Gatos Union School District	15766 Poppy Lane Los Gatos, CA 95030-3228	408-335-2000
Milpitas Unified School District	1331 East Calaveras Boulevard Milpitas, CA 95035-5707	408-945-2300
Petaluma Joint Union High School District	200 Douglas Street Petaluma, CA 94952-2575	707-778-4604
Piedmont Unified School District	760 Magnolia Avenue Piedmont, CA 94611-4047	510-594-2600
Rincon Valley Union Elementary School District	1000 Yulupa Avenue Santa Rosa, CA 95405-7020	707-542-7375
San Lorenzo Unified School District	15510 Usher Street San Lorenzo, CA 94580-1623	510-317-4600
Sequoia Union High School District	480 James Ave. Redwood City, CA 94062-1041	650-369-1411
Sunnyvale School District	819 West Iowa Avenue Sunnyvale, CA 94086-5926	408-522-8200

END OF INTRODUCTION

DEFINITIONS

The following are definitions for terms used throughout this Official Statement to describe the issuance of tax and revenue anticipation notes in the name of certain school districts operating within the State of California (the "State"). These tax and revenue anticipation notes are authorized, secured, sold, and issued separately.

The "District." A school district issuing tax and revenue anticipation notes as named herein. Collectively the "Districts."

The "District Board." The governing board of the District. Collectively, the "District Boards."

The "County." The appropriate county, either Alameda, San Mateo, Santa Clara, Sonoma, or Stanislaus, in which each District is located and whose Board of Supervisors has adopted the resolution authorizing the issuance of the Notes.

The "Notes." The securities, individually or collectively, issued in the name of each District. The Notes of each District are summarized below under "**Summary of the Notes.**"

The "Authorizing Resolutions." The resolution adopted by the County Board of Supervisors of the appropriate County on the date specified below pursuant to a separate requesting resolution of a District adopted on the date specified below, together with such requesting resolution.

The "Pledged Revenues." The specific Unrestricted Moneys, as defined herein, which are pledged by each District at certain times and in certain amounts as specified below. Pledged Revenues will be deposited by each District into such District's Repayment Fund. Pledged Revenues are required to be so deposited according to the dates specified for each District in each District's Authorizing Resolution, summarized below under "**Summary of the Notes.**"

The "Repayment Fund." The fund established by the appropriate County to hold segregated Pledged Revenues set aside by each District for Note repayment. The County will transfer moneys in the Repayment Fund to Cede & Co., as nominee for DTC, for the payment in full of principal of and interest on each District's respective Notes at their maturity.

The "Unrestricted Moneys." Taxes, revenues and other unrestricted moneys which are received by a District for the general fund of that District for the fiscal year 2004/05, which are generally available for the payment of current expenses and other obligations.

Summary of the Notes

The following table lists each District and provides a summary of the Notes being issued.

SUMMARY OF THE NOTES

<u>Principal Amount</u>	<u>Issue</u>	<u>County</u>	<u>Adoption Dates for Authorizing Resolutions</u>	<u>Pledged Revenues</u>
\$ 4,600,000	Alameda Unified School District 2004 Tax and Revenue Anticipation Notes	Alameda	District Board: April 27, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 2,700,000	Albany Unified School District 2004 Tax and Revenue Anticipation Notes	Alameda	District Board: April 20, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 5,460,000	Ceres Unified School District 2004 Tax and Revenue Anticipation Notes	Stanislaus	District Board: April 12, 2004 County Board: May 4, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 8,500,000	Cupertino Union School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 13, 2004 County Board: May 4, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 3,500,000	Dublin Unified School District 2004 Tax and Revenue Anticipation Notes	Alameda	District Board: April 6, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 6,000,000	Evergreen School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 22, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 9,500,000	Fremont Union High School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 13, 2004 County Board: May 4, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 6,250,000	Los Altos School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 5, 2004 County Board: May 4, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 3,000,000	Los Gatos Union School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 7, 2004 County Board: May 4, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 3,500,000	Milpitas Unified School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: April 27, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005

SUMMARY OF THE NOTES

\$ 5,230,000	Petaluma Joint Union High School District 2004 Tax and Revenue Anticipation Notes	Sonoma	District Board: May 18, 2004 County Board: May 25, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 3,500,000	Piedmont Unified School District 2004 Tax and Revenue Anticipation Notes	Alameda	District Board: April 7, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 2,500,000	Rincon Valley Union Elementary School District 2004 Tax and Revenue Anticipation Notes	Sonoma	District Board: April 6, 2004 County Board: May 25, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 4,000,000	San Lorenzo Unified School District 2004 Tax and Revenue Anticipation Notes	Alameda	District Board: April 6, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$13,000,000	Sequoia Union High School District 2004 Tax and Revenue Anticipation Notes	San Mateo	District Board: March 31, 2004 County Board: May 11, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005
\$ 5,000,000	Sunnyvale School District 2004 Tax and Revenue Anticipation Notes	Santa Clara	District Board: May 6, 2004 County Board: May 18, 2004	40% of principal in January, 2005 40% of principal in April, 2005 20% of principal in May, 2005 100% of interest in May, 2005

THE NOTES

Purpose of the Notes

The Notes are issued in anticipation of future receipt of moneys intended as general fund revenues of each District. Proceeds of the Notes will be used and expended by each District for any purpose for which such District is authorized to expend funds from its general fund, including, but not limited to, current expenses, capital expenditures, and the discharge of any obligation or indebtedness of such District.

Authority for Issuance

The Notes are issued in conformity with the laws of the State including Article 7.6 (commencing with Section 53850), Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act") and pursuant to the Authorizing Resolutions of each District and the appropriate County. See "DEFINITIONS — Summary of the Notes" herein.

General Provisions

The Notes consist of separate and distinct issues as described above. The Notes will be dated as of the date of delivery, will mature (without option of prior redemption) 359 days after such date of delivery, and will bear interest from such date at the rates per annum set forth on the inside of the cover page hereof on the basis of a 360-day year of twelve 30-day months. Principal of and interest on the Notes is payable upon maturity. The Notes will be issued in book-entry form (see "THE NOTES — Book-Entry System" and "— Discontinuation of Book-Entry System; Payment to Beneficial Owners" herein) and in denominations of \$1,000 each or any integral multiple thereof. The Notes are not subject to optional redemption prior to maturity.

Bank Qualification

The Notes issued in the name of the Districts identified as "Bank Qualified" on the cover of this Official Statement are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. See "LEGAL MATTERS — Tax Matters" herein.

Investment of Note Proceeds

Proceeds from the sale of the Notes will be deposited in the Treasury of the appropriate County in a proceeds fund to the credit of each District. Moneys in such proceeds fund shall, to the greatest extent possible, be invested by the appropriate County Treasurer, or other investment officer of the appropriate County, directly in investments, or through an investment agreement, as permitted by the laws of the State, including those permitted under Section 53601 of the Act, as now in effect and as hereafter amended, and in accordance with such procedures and subject to such requirements as the County Treasurer or such other investment officer shall establish.

Security and Sources of Payment

The Notes of each District are, by statute, general obligations of that District. The principal amount of Notes, together with interest thereon, will be payable from the Unrestricted Moneys for fiscal year 2004/05 which are generally available for the payment of current expenses and other obligations of such District.

As security for the payment of principal of and interest on an issue of Notes, the applicable District has pledged the first Unrestricted Moneys received during the months and in the amounts identified in **"DEFINITIONS — Summary of the Notes"** herein (the "Pledged Revenues"). The Pledged Revenues will be in an amount sufficient to pay the principal of and interest on the Notes. The principal of and interest on the Notes constitute a first lien and charge against, and will be paid from, the Pledged Revenues.

To the extent not paid from Pledged Revenues, the Notes will be paid from any other moneys of said District lawfully available therefor. In the event that there are insufficient Unrestricted Moneys received by any District to permit deposit into its Repayment Fund of the full amount of such District's Pledged Revenues to be deposited in any month on the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of said District lawfully available for the repayment of the Notes and the interest thereon. The Notes of each District are secured independently by each District. No District will pay any other District's unpaid obligation on the Notes, nor make up any deficiency in Pledged Revenues deposited in any other District's Repayment Fund.

The Authorizing Resolutions create special funds to be held on behalf of each District by the appropriate County Treasurer, separate and distinct from all other County and District funds and accounts and designated as the appropriate Repayment Fund (see **"DEFINITIONS — Summary of the Notes"** herein). Any moneys placed in each District's Repayment Fund will be for the benefit of the registered owners of such District's Notes, and until the principal of and interest on such Notes is paid or provided for, each District's Repayment Fund will be used solely for the payment of principal of and interest on such District's Notes.

All moneys held in each District's Repayment Fund will be invested in any one or more investments generally permitted to school districts under the laws of the State of California, including those permitted under Section 53601 of the Act, and complying with Standard & Poor's investment criteria corresponding to the rating on the Notes.

As further security, each District has covenanted in the Authorizing Resolutions that it will not request the County Treasurer to make temporary transfers of funds during the 2004/05 fiscal year until the full amount of Pledged Revenues has been deposited into the Repayment Fund. The Authorizing Resolutions, however, do not preclude any District from issuing subsequent series of tax and revenue anticipation notes during the 2004/05 fiscal year.

Because each affected County will be in possession of the taxes and other revenues to be set aside to pay one or more issues of Notes, and such moneys are likely to be invested in its pooled investment fund, should such County go into bankruptcy, a court might hold that the Owners of the Notes do not have a valid lien on the amounts set aside in the Repayment Funds. In that case, unless the Owners could "trace" the funds, the Owners would be merely unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the Pledged Moneys and other Unrestricted Revenues, if any, set aside in the Repayment Funds.

Note Coverage Ratio

A “Note Coverage Ratio” can be calculated for each District by dividing the June 30, 2005, estimated ending cash balance (excluding Note repayment) by the principal and interest on the Notes. See the appropriate District section “—**Note Coverage Ratio**” for further detail regarding the Note Coverage Ratio for each District.

Other District Funds

Many of the Districts maintain substantial balances in segregated funds that are restricted as to use. These funds are not available for working capital expenditures of the type being financed by the Notes and have not been considered in the cash flow analyses in each District section. Other District funds are not pledged to the repayment of the Notes.

Generally, however, these funds may be accessed on a temporary basis through District Board action and must be repaid within the same fiscal year, or in the following fiscal year under certain circumstances. The process for accessing special or restricted fund moneys is described in Section 42603 of the Education Code. See each District section “—**Other District Funds**” for a description of other significant restricted funds maintained by each District.

Book-Entry System

The information in this section concerning DTC and DTC's book-entry system has been furnished by DTC for use in disclosure documents, and the Districts and Counties take no responsibility for the accuracy or completeness thereof. The Districts and Counties cannot and do not give any assurances that DTC will distribute to Direct Participants, or that Direct Participants or Indirect Participants will distribute to the Beneficial Owners, payments of principal of, interest, and premium, if any, on each issue of Notes paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Districts nor the Counties are responsible or liable for the failure of DTC or any Direct or Indirect Participant to make any payments or give any notice to a Beneficial Owner or any error or delay relating thereto. Accordingly, no representations can be made concerning these matters and neither the Direct nor Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for each issue of the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each issue of the Notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities

brokers and dealers, bankers, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes. Under its usual procedures, DTC mails an Omnibus Proxy to each District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in

“street name,” and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Districts believe to be reliable, but the Districts and Counties take no responsibility for the accuracy thereof.

Discontinuation of Book-Entry System; Payment to Beneficial Owners

Only in the event that the book-entry system described above is discontinued with respect to the Notes, will provisions of the Resolution described below govern the payment, transfer and exchange of the Notes directly to the Beneficial Owners. Until then, these provisions apply directly only to DTC.

Principal of the Notes and any premium upon the redemption thereof prior to the maturity will be payable upon presentation and surrender of the Notes at the principal office of the Paying Agent as defined in the Resolution, or such other location as the Paying Agent may specify. Interest shall be paid by check to the owner of any Note at the address of such owner shown on the registration books of the Paying Agent, or at such other address the owner of the Note has filed with the Paying Agent for such purpose on or before the Record Date. Owners of not less than \$1,000,000 in principal amount of Notes may, by written request received by the Paying Agent not later than the Record Date prior to any Interest Payment Date, have interest payments made on the date due to an account maintained in the United States of America in immediately available funds.

Any Note may be exchanged for Notes of any authorized denominations upon presentation and surrender at the principal office of the Paying Agent as defined in the Resolution, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Note may be transferred only on the Note registration books upon presentation and surrender of the Note at the principal office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Note or Notes of any authorized denomination or denominations requested by the registered owner or by a person legally empowered to do so, equal in the aggregate to the unmaturing principal amount of the Note surrendered and bearing interest at the same rate and maturing on the same date.

The Paying Agent will not be required to exchange or transfer any Note during the period from (a) the close of business on the applicable Record Date to and including the succeeding Interest Payment Date, or (b) the close of business on the date on which notice of redemption is given to and including the redemption date.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUE AND APPROPRIATIONS

The information in this section concerning certain provisions of Articles XIII A, XIII B, XIII C and XIII D of the State constitution, Propositions 98 and 111 and certain other law is provided as supplementary information only, to outline the principal constitutional and statutory laws under which the operating revenue and finances of K-12 school districts in the State are determined. For specific financial information on the District, see District section herein.

Article XIII A

Article XIII A of the State constitution (the "Constitution") limits, subject to certain exceptions, the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of those voting in an election to impose ad valorem taxes beyond 1%, and, except to pay debt service on certain voter approved indebtedness, prohibits the imposition of any additional ad valorem, sales or transaction taxes on real property. Article XIII A does permit ad valorem taxes to be levied in excess of the basic 1% tax limitation as required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, (b) on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on any bonded indebtedness approved by fifty-five percent of the votes cast by the voters of a school or community college district for the construction, reconstruction, rehabilitation or replacement of, including furnishing and equipping of, or the acquisition or lease of real property for, school facilities, provided that certain accountability and other requirements are satisfied. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues, while prohibiting the imposition by the State Legislature of any new ad valorem, sales or transaction taxes on real property.

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax except to pay voter-approved indebtedness. The 1% property tax is automatically levied by each county in the State and distributed according to a formula among taxing agencies within that county. The formula apportions the tax roughly in proportion to the relative shares of taxes last levied prior to 1989.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency claims, if any, on tax increment and subject to changes in organization, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

Article XIII B

Article XIII B of the Constitution, approved by voters in 1979 and subsequently amended by Propositions 98 and 111 (together, the “Gann limit”), limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State, to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population, for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines:

(a) “change in the cost of living” with respect to school districts to mean the percentage change in California per-capita income from the preceding year, and

(b) “change in population” with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues. For school districts Article XIII B constrains appropriations from State and local tax sources, but not federal aid or non-tax income, such as revenues from cafeteria sales or adult education fees.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two fiscal years. If a school district receives any proceeds of taxes in excess of its appropriations limit, it may increase its appropriations limit to equal that amount by taking appropriations limit from the State.

Article XIII B also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the Constitution. See “**Propositions 98 and 111**” below.

Propositions 98 and 111

On November 8, 1988 the voters approved Proposition 98, an initiative constitutional amendment and statute called “The Classroom Instructional Improvement and Accountability Act” (“Proposition 98”). In addition to adding certain provisions to the Education Code, Proposition 98 also amended Article XIII B and Section 8 of Article XVI of the Constitution and added Section 8.5 of Article XVI to the Constitution, the effects of which are to establish a minimum level of State funding for school districts, to allocate to school

districts, within limits, State revenues in excess of the State's appropriations limit and to exempt such excess funds from school district appropriations limits.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the Constitution with respect to appropriations limitations and school funding priority and allocation.

Article XIII B, as amended by both Proposition 98 and Proposition 111, is discussed above under "**Article XIII B.**"

The provisions of Sections 8 and 8.5 of Article XVI, as added to or amended by Propositions 98 and 111, may be summarized as follows:

- (a) *State Funding of Schools (Section 8)*. Monies to be applied by the State for the support of school districts must be at a level equal to the greater of the following "tests":
 - (i) The amount which, as a percentage of the State general fund revenues which may be appropriated pursuant to Article XIII B, equals the percentage of general fund revenues appropriated for school districts in fiscal year 1986/87;
 - (ii) The amount actually appropriated to school districts in the prior fiscal year from general fund proceeds and from allocated local proceeds of taxes (excluding any excess state revenues allocated pursuant to Section 8.5), adjusted for changes in enrollment and for the change in the cost of living (operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita general fund revenues plus one-half of one percent);
 - (iii) The amount actually appropriated to school districts in the prior fiscal year from general fund proceeds and from allocated local proceeds of taxes (excluding any excess State revenues allocated pursuant to Section 8.5) adjusted for changes in enrollment and for the change in per capita general fund revenues, and, in addition, an amount equal to one-half of one percent times the prior year appropriations (excluding any excess State revenues) adjusted for changes in enrollment (operative only in a fiscal year in which the percentage growth in California per capita personal income is greater than the percentage growth in per capita general fund revenues plus one-half of one percent).

If the third test is used in any year the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when the general fund revenue growth exceeds personal income growth.

The State legislature by a two-thirds vote of both houses, with the Governor's concurrence, may suspend for one year the minimum funding provisions for school districts as provided for in Section 8.

- (b) *Allocations to the State School Fund (Section 8.5)*. In addition to the amounts applied to school districts under the tests discussed above, the State Controller is directed to allocate available excess State revenues (pursuant to Article XIII B) to the State School Fund.

However, no such allocation is required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditures per student of the 10 states with the highest annual expenditures per student and the average class size equals or is less than the average class size of the 10 states with the lowest class size.

Such allocations do not constitute appropriations subject to Article XIII B limitations and are to be made in an equal amount per enrollment.

Articles XIIC and XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect taxes, assessments, fees and charges. Among other things, Article XIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. In respect to school district general obligation bonds, the Constitution and laws of the State impose a mandatory duty on the county Treasurer-Tax Collector to levy a property tax sufficient to pay debt service on such bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of such bonds or to otherwise interfere with performance of the mandatory duty of a school district and its county with respect to such taxes which are pledged as security for payment of such bonds. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of, or consents to, any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Voter approved special taxes, including those levied pursuant to the Mello-Roos Community Facilities Act, "parcel" taxes, and assessments levied pursuant to the Landscape and Lighting District Act of 1972, that are not pledged by statute to the payment of bonds, may be subject to reduction or repeal by voter initiative under the provisions of Article XIIC.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect laws existing prior to enactment of Articles XIIC and XIID relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by a school district.

The interpretation and application of Article XIIC and Article XIID will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting school districts' revenues or ability to expend revenues.

AD VALOREM PROPERTY TAXATION

Principal of and interest on the Notes are payable solely from all taxes, revenues, income, cash receipts and other unrestricted moneys of the Districts for the payment thereof. (See "THE NOTES — Security and Sources of Payment, and "THE NOTES — Available Sources of Repayment" herein.) The information in this appendix section describes how ad valorem property taxes in general are assessed and levied.

County Services

School districts within each county use the services of that county for the assessment and collection of property taxes for district purposes. District property taxes, including the *ad valorem* property tax for payment of general obligation bonds, are assessed and collected by the county at the same time and on the same rolls as county, special district and city property taxes.

Assessed Valuation

All property is assessed using full cash value as defined by Article XIII A of the Constitution. State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, provided that the owner files for such exemption. This exemption does not result in any loss of tax revenue to local agencies, since the State reimburses local agencies for the value of taxes on exempted property. State law also provides exemptions from *ad valorem* property taxation for certain classes of property based on ownership or use, such as churches, colleges, non-profit hospitals and charitable institutions; the State does not reimburse local agencies for any tax not levied due to these exemptions. State and federal government property also is not taxed.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all taxable property not attached to land, such as personal property or business property. Boats, aircraft and business personal property are examples of unsecured property. Unsecured property is assessed on the "unsecured roll." Every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer. Valuation of secured property and a statutory tax lien is established as of January 1 prior to the tax year (the tax year is the July 1 - June 30 fiscal year of the State) of the related tax levy, and the secured and unsecured tax rolls are certified on or before July 1 of the tax year by the County Assessor.

Future growth in assessed valuation allowed under Article XIII A is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

State-Assessed Utility Property

The Constitution provides that the State Board of Equalization (the "SBE") rather than counties assess certain property owned or used by regulated utilities. Such property is grouped and assessed by the SBE as "going concern" operating units, which may cross local tax jurisdiction boundaries, rather than as individual parcels of real or personal property separately assessed. Such utility property is known as "unitary property." The SBE assesses property at "fair market value," determined by various methods and formulae depending on the nature of the property, except that assessed value of certain railroad property is limited to a percentage of the fair market value determined by the SBE, in conformity with federal law. The SBE assesses values as of January 1 prior to the tax year of the related tax levy. Property tax on SBE-assessed property is then levied and collected by each county in the same manner as county assessed property, but at special county-wide tax rates, and distributed to each taxing agency within that county, subject to certain adjustments, according to the approximate percentage allocated to each taxing agency in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of that industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may convert the status of such assets from SBE-assessed unitary property to locally assessed property. If locally taxed property were acquired by a utility and taxed as unitary property, local taxing agencies within a county will gain or lose assessed value depending on how such assessed value is redistributed among the local taxing agencies. If the State or a local municipality buys or otherwise acquires property owned by a private, tax paying utility, such property will be removed from the tax rolls. *Ad valorem* tax rates for local agency bonds may adjust up or down in response to such changes in assessed value.

Tax Levies, Collections and Delinquencies

Property tax rates are set by the first business day of September of the tax year of the related tax levy. The secured property tax is payable in two equal installments due November 1 and February 1, and payments become delinquent if not postmarked or paid by end of business day on December 10 and April 10, respectively. Taxes on unsecured property (personal property and leasehold interests) are levied at the preceding fiscal year's secured tax rate and have a due date set by each county effectively no earlier than July 1 and no later than July 31 of each year. Taxes on unsecured property become delinquent if not postmarked or paid by end of business day on August 31, or if added to the unsecured roll after July 31, become delinquent at the end of the month succeeding the month of enrollment.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll for which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax-Collector.

A 10% penalty also attaches to delinquent taxes on property on the unsecured roll, and after the last day of the second month after the 10% penalty attaches, an additional penalty of 1.5% per month begins to

accrue, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Teeter Plan

The Counties have adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code, and under such plan, each participating local agency levying property taxes, including school districts, receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The Teeter Plan, once adopted by a county, remains in effect unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the county. A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county when delinquencies for taxes levied by that agency exceed 3%.

The Teeter Plan applies to the 1% general purpose property tax levy. Whether or not the Teeter Plan also is applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of a local agency, varies by county.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

The information in this section concerning funding procedures of K-12 school districts in the State is provided as supplementary information only. For specific financial information on each District, see each District section herein.

State Funding of School Districts

Annual State apportionments of basic and equalization aid to K-12 school districts for general purposes are made according to a revenue limit per unit of average daily attendance ("A.D.A."). If a district's total revenue limit exceeds its property tax revenue, its annual State apportionments, subject to certain adjustments, amount to the difference between revenue limit and its actual property tax receipts (after any redevelopment agency tax increment or other deductions or "shifts" that may be in effect under State law). A.D.A. is determined by school districts twice a year, in December ("First Period A.D.A.") and April ("Second Period A.D.A.").

The calculation of the amount of State apportionment a school district is entitled to receive each year is summarized as follows: first, the prior year Statewide revenue limit per A.D.A. is recalculated with certain adjustments for equalization and other factors; second, this adjusted prior year Statewide revenue limit per A.D.A. is inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per A.D.A. for each type of A.D.A., yielding the school

district's current year revenue limits per A.D.A.; third, the current year revenue limits per A.D.A. are applied to the school district's A.D.A. for either the current or prior year, as the district elects; fourth, revenue limit adjustments known as "add-ons" are calculated for each school district if the school district qualifies for such add-ons (for example, add-ons to adjust for small school district size and providing meals for needy pupils, among others); and fifth, local property tax revenues are deducted from the total revenue limit calculated for each district to arrive at the amount of State apportionment each school district is entitled to for the current year.

The State revenue limit is calculated three times a year for each school district on the basis of projections submitted by the district on or about December 10, based on First Period A.D.A., and April 15 and June 30, both based on Second Period A.D.A. Beginning in fiscal year 1998/99, A.D.A. calculations have been based on actual attendance and no longer include excused absences. Revenue limit calculations are made by each school district, reviewed by the County Office of Education and submitted to the State Department of Education. The State Department of Education reviews the calculations for accuracy, determines the amount of State apportionment owed to each school district and notifies the State Controller to distribute the apportionments. The first calculation is performed for the First Principal Apportionment in February, the second calculation for the Second Principal Apportionment in June, and the final calculation for the end of the fiscal year Annual Principal Apportionment, in essence a correction that is made in October of the next fiscal year.

See each District section herein for each District's specific annual revenue limit per A.D.A.

Basic Aid Districts

In the event that a school district's property tax revenue exceeds its calculated revenue limit entitlement, that school district retains all of its property tax revenue and is not entitled to state revenue limit apportionments. Such districts are commonly known as "Basic Aid Districts." See "**Average Daily Attendance and Revenue Limit**" in each District section herein for the District's Basic Aid status.

State Budget

The State budget approval process begins with the release to the State legislature by January 10th of the Governor's proposed budget for the following fiscal year. State fiscal years begin July 1st. In May, the Governor submits a revision of the proposed budget that reflects updated estimates of revenues and expenditures. After a series of public hearings and other steps in the legislative process, the budget must be approved by two-thirds vote in each house of the State legislature and submitted to the Governor. The Governor may reduce or eliminate any appropriation through the line-item veto. Although the budget is required by the Constitution to be approved no later than June 15th, it often has not been approved until later.

While the Constitution in large part dictates the formulae for determining the allocation of State revenues to the K-12 education portion of the State budget pursuant to Proposition 98 and other provisions (see "**CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUE AND APPROPRIATIONS**" herein), the Governor and State legislature still have significant leeway in deciding whether and by how much to exceed or reduce such allocation in the actual funding of K-12 school districts, and to decide what funds will be general purpose or restricted purpose, in the State budget process.

On January 9, 2004, the *Governor's 2004/05 Budget* was released, and revised as of May 13, 2004, with the release of the *Governor's Budget May Revision 2004/05*, identifying a potential year-end budget

deficit for 2004/05 of over \$26 billion (including carry-over from prior years). The budget meets this deficit and provides for a small reserve with a proposed \$12.3 billion in proceeds from Economic Recovery Bonds, authorized under the California Economic Recovery Bond Act approved by California voters on March 2, 2004, and \$14.6 billion in various other solutions.

The *Governor's Budget May Revision 2004/05* estimates general fund revenue and transfers-in of \$71.322 billion for 2002/03 and projects \$74.591 billion for 2003/04 and \$76.688 billion for 2004/05. General fund expenditures are estimated at \$77.482 billion for 2002/03, and projected to be \$77.624 billion for 2003/04 and \$77.578 billion for 2004/05. The *Governor's Budget May Revision 2004/05* shows a fiscal year end general fund balance of \$3,837 billion for 2002/03, projects a year end general fund balance of \$2.816 billion for 2003/04 and a year end general fund balance of \$1.927 billion for 2004/05.

The *Governor's Budget May Revision 2004/05* calls for the State legislature to act to reduce Proposition 98 funding of K-12 education by \$2 billion from what it otherwise would be in 2004/05, to be restored to schools over future years. With this reduction, the *Governor's Budget May Revision 2004/05* estimates Proposition 98 K-12 education funding allocations, including local property tax revenue, of \$43.623 billion for 2002/03, \$46.212 billion for 2003/04 and \$46.989 billion for 2004/05. Of these amounts, the State general fund will provide \$28.843 billion in 2002/03, \$30.423 billion in 2003/04 and \$34,003 billion in 2004/05; the difference is funded from local property tax revenue projected for each school district. For 2002/03, the *2002/03 Budget Act* included a 2.00% COLA (only 1.66% was mandated for 2003/04 under Proposition 98 formula) for school district and county office of education revenue limit apportionments and categorical programs, and funding of a 1.37% increase in statewide enrollment (the *Governor's Budget May Revision 2003/04* indicated that the 2002/03 increase in statewide enrollment was 1.75%). The *2003/04 Budget Act* had no COLA and assumed funding of a 1.34% increase in statewide enrollment for 2003/04. The *Governor's Budget May Revision 2004/05* includes a 2.41% COLA (the mandated amount for 2004/05 under Proposition 98 formula) for school district and county office of education revenue limit apportionments, and funding of an assumed 0.95% increase in statewide enrollment (and indicates that the growth for 2003/04 is 0.75% rather than the previously assumed 1.34%). Proposition 98 K-12 funding per pupil in the *Governor's Budget May Revision 2004/05* is estimated at as \$6,597 for 2002/03, \$7,011 for 2003/04 and \$7,007 for 2004/05.

State Funding of Schools Without A State Budget

On May 29, 2002, the Court of Appeal of the State of California for the Second Appellate District in *Steven White v. Gray Davis et al.* (combined with *Howard Jarvis Taxpayers Association et al. v. Westly* on appeal) held, among other things, that during a State budget impasse, absent adoption of a budget bill or an emergency appropriation by the Legislature, the State Controller may only disburse State funds authorized by (a) continuing appropriation enacted by the Legislature, (b) self-executing provision of the State constitution, including payment of certain funds for public schools under Article XVI, Section 8.5 of the constitution, and (c) mandate of federal law, such as prompt payment of minimum wage and overtime compensation mandated by the federal Fair Labor Standards Act and benefits under federal food stamp, foster care and adoption, child support and child welfare programs. The Court of Appeal specifically concluded that Article XVI, Section 8 does not constitute a self-executing authorization to disburse revenue limit apportionment to school districts; legislative appropriation is required for revenue limit disbursement. On May 1, 2003, the California Supreme Court in its decision on *Steven White v. Gray Davis et al.* granted review to two other matters and let these particular conclusions of the Court of Appeal stand without ruling on them.

During the 2003/04 State budget impasse the State Controller announced that only "payments of prior year obligations, constitutional authorizations, federal mandates and continuous legislative appropriations

would be made.” The State Controller concluded that revenue limit apportionments to school districts, under provisions of the Education Code implementing Article XVI, Section 8 of the State constitution, are authorized in statute as continuous legislative appropriations, so disbursed these funds without a budget bill or emergency appropriation enacted. The State Controller did not disburse certain categorical and other funds to school districts until the *2003/04 Budget Act* was enacted.

State Retirement Programs

School districts participate in the State of California Teachers Retirement System (“STRS”). This plan covers all full-time and most part-time certificated employees. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in the Public Employees Retirement System (“PERS”). This plan covers all classified personnel who are employed at least four hours per day. In order to receive PERS benefits, an employee must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in benefits. The contribution rates are based on statewide rates set by the respective boards of STRS and PERS. STRS has a substantial State-wide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. Since this liability has not been broken down by each school district, it is impossible to determine each district's share. See each District section herein for information regarding the District's contributions to these retirement systems.

County Office of Education

In each county there is a county superintendent of schools (the “County Superintendent”) and a county board of education. The Office of the County Superintendent, frequently known as the “County Office of Education” (the “County Office”) provides the staff and organization that carries out the activities of the County Superintendent and county board of education.

County Offices provide instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. All school district budgets must be approved by their County Office and each district must provide its County Office with scheduled interim reports throughout the fiscal year. County Offices also act as enforcement entities which intervene in district fiscal matters should a district fail to meet State budget and reporting criteria.

School District Budget Process

School districts are required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School districts' annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year

fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain general fund reserves which can be drawn upon in the event of a resulting excess of expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed.

For both dual and single budgets submitted on July 1, the County Superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations and is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the County Superintendent will approve or disapprove the adopted budget for each school district. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved.

Subsequent to approval, the County Superintendent throughout the fiscal year will monitor each school district under his or her jurisdiction pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If a County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and the County Superintendent may do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of any collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

At minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15th covering financial operations from July 1 through October 31st, and a Second Interim Financial Report by March 15th covering financial operations from November 1 through January 31st. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1st through April 30th by June 1st. If not required, a Third Interim Financial Report is not prepared. Each interim report shows

fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30th, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

Accounting Practices

The accounting policies of California school districts conform to generally accepted accounting principles, as modified in accordance with policies and procedures of the California School Accounting Manual. This manual, pursuant to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. See also “**Note 1**” in the appropriate District section “**Excerpts from Audited Financial Statements, June 30, 2003**” herein for further discussion of applicable accounting policies.

County Investment Pools

In accordance with Education Code Section 41001, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer serves as ex officio treasurer for those school districts located within the county. Each county treasurer has the authority to implement and oversee the investment of school district funds held in the county treasury. Generally, the county treasurer pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis.

Each county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 et seq. and 53635 et seq. In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. A copy of the County investment policy and periodic reports on the County investment pool are available from each County Treasurer-Tax Collector. See also “**APPENDICES C through G — COUNTY INVESTMENT PORTFOLIO REPORT**” herein.

ALAMEDA UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Bob Reeves
President

Mike McMahon
Vice President

Janet Gibson
Member

Barbara Guenther
Member

Tracy Lynn Jensen
Member

DISTRICT ADMINISTRATION

Dr. Alan Nishino
Superintendent

Lorenzo Legaspi
Chief Financial Officer

GENERAL AND FINANCIAL INFORMATION

Introduction

The Alameda Unified School District (the "District") provides educational services to residents of the City of Alameda in Alameda County. The District serves a population of approximately 72,259.

The District operates twelve elementary schools (including eight K-5 elementary schools, two K-6 elementary schools and two K-8 elementary schools), three middle schools (6-8), two high schools (9-12), one continuation school, one adult school, and two charter schools (including one 7-12 charter school and one 9-12 charter school).

The District's 2003/04 pupil-teacher ratios are 20:1 for grades K-3, 29:1 for grades 4-5, 25:1 for grades 6-8, and 29:1 for grades 10-12.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Interim Superintendent of Schools. Dr. Alan Nishino has served in this capacity since 2000.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

ALAMEDA UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	9,966
2001/02 ^(b)	10,082
2002/03 ^(b)	9,982
2003/04 ^(c)	9,996
2004/05 ^(c)	10,179

^(a) Includes grades K-12, special education, continuation education and opportunity schools; does not include adult education ROC/P.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 23, 2004.

Labor Relations

The District employs 614 full-time equivalent certificated and 283 full-time equivalent classified employees. There are three formal bargaining organizations that are active in the District.

ALAMEDA UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Alameda Education Association	639	June 30, 2003 ^(a)
Association of California School Administrators	62	June 30, 2002 ^(a)
California School Employees Association	272	June 30, 2005 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Alameda County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX C – ALAMEDA COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district may receive from local property taxes (a fixed amount based on the distribution of the one percent levy) and state aid (an amount equal to the difference between the revenue limit and the amount of local property taxes received). Changes in revenue limit income received from year to year are generally based on the cost of living adjustment ("COLA") provided by the State and the year to year growth in A.D.A. The District has assumed A.D.A. growth as reflected in the table above, and 0% COLA for the 2004/05 revenue limit income in the table below. See "**— Average Daily Attendance and Revenue Limit**" herein.

ALAMEDA UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$46,884,226	59.71%
2001/02 ^(a)	48,325,222	58.88
2002/03 ^(a)	49,806,206	60.64
2003/04 ^(b)	48,517,762	59.70
2004/05 ^(b)	48,517,762	59.70

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 23, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no changes in the number of full-time equivalent certificated and or full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are not expected to increase in the 2004/05 fiscal year.

ALAMEDA UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$55,562,731	72.76%
2001/02 ^(a)	58,363,929	72.11
2002/03 ^(a)	61,141,842	73.75
2003/04 ^(b)	59,113,699	71.86
2004/05 ^(b)	59,113,699	72.84

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 23, 2004.

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05

ALAMEDA UNIFIED SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balance

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^(a)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(b)
Revenues					
Revenue Limit Sources				\$48,517,762	\$48,517,762
State Aid	\$24,477,922	\$24,214,635	\$24,448,193		
Property Taxes	22,406,304	24,110,587	25,358,013		
Federal Revenue	2,917,103	4,885,641	5,728,799	6,653,561	6,653,561
Other State Revenue	27,304,155	26,787,011	23,339,493	22,250,644	22,250,644
Other Local Revenue	1,409,694	2,083,037	3,257,730	3,852,662	3,852,662
Total Revenues	78,515,178	82,080,911	82,132,228	81,274,629	81,274,629
Expenditures					
Certificated Salaries	36,621,850	38,786,963	40,056,141	38,995,069	38,995,069
Classified Salaries	10,000,885	10,013,892	10,295,721	10,100,194	10,100,194
Employee Benefits	8,939,996	9,563,074	10,789,980	10,018,436	10,018,436
Books and Supplies	2,912,720	3,104,957	2,889,058	5,065,736	4,876,405
Services, Other Operating Expenses	7,376,858	7,533,154	8,080,239	7,445,569	6,523,118
Capital Outlay	2,214,387	1,411,687	176,816	279,832	279,832
Other Outgo	8,300,800	10,523,276	10,619,634	10,360,373	10,360,373
Total Expenditures	76,367,496	80,937,003	82,907,589	82,265,209	81,153,426
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	199,531	138,410	174,498	0	0
Interfund Transfers Out / Other Uses	(778,572)	(450,436)	(248,226)	(250,284)	(250,284)
Total Other Financing Sources/(Uses)	(579,041)	(312,026)	(73,728)	(250,284)	(250,284)
Excess of Revenues Over (Under) Expenditures	1,568,641	831,882	(849,089)	(1,240,864)	(129,081)
Beginning Fund Balance	2,016,598	3,585,239	4,417,121	3,568,032	2,327,168
Ending Fund Balance	\$ 3,585,239	\$ 4,417,121	\$ 3,568,032	\$ 2,327,168	\$ 2,198,087

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 23, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$4,600,000 tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "ALAMEDA UNIFIED SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.37 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

ALAMEDA UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 1,885,643
Projected 2004/05 Cash Receipts (Including Note Proceeds)	86,067,725
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(81,455,625)</u>
Balance	\$ 6,497,743
Note Repayment	\$ 4,737,617
NOTE COVERAGE RATIO	1.37 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES – Other District Funds" herein.

ALAMEDA UNIFIED SCHOOL DISTRICT Other District Funds

<u>Funds</u>	<u>June 30, 2003, Balance ^(a)</u>	<u>June 30, 2004, Estimated Balance ^(b)</u>	<u>June 30, 2005, Estimated Balance ^(c)</u>
Special Revenue Funds			
Adult Education	\$463,088	\$525,714	\$525,000
Cafeteria	17,653	43,983	44,000
Child Development	90,000	45,000	45,000
Subtotal for Special Revenue Funds	<u>570,741</u>	<u>614,698</u>	<u>614,000</u>
Capital Project Funds			
Capital Facilities	350,068	13,136	10,000
Subtotal for Capital Project Funds	<u>350,068</u>	<u>13,136</u>	<u>10,000</u>
Total Alternate Liquidity	<u>\$920,809</u>	<u>\$627,834</u>	<u>\$624,000</u>

^(a) Audited Financial Statement.

^(b) Second Interim Report adopted on March 23, 2004.

^(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

**District: Alameda Unified School District
2004 Tax and Revenue Anticipation Notes**

EXHIBIT I

2003/04 ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	827,236	6,653,198	4,591,694	4,012,921	3,373,376	1,816,006	6,447,118	8,526,828	8,866,914	9,207,001	7,547,087	5,513,657	827,236
Receipts													
Revenue Limit: Property Tax	140,409	20,941	715,523	10,944	663,063	5,126,733	7,624,848	2,427,634	2,427,634	2,427,634	2,427,634	2,427,634	26,440,633
Revenue Limit: State Aid	6,454	1,535,179	2,830,220	3,880,354	1,940,177	1,940,177	1,940,177	1,600,878	1,600,878	1,600,878	1,600,878	0	20,476,251
Other Receipts	2,651,923	1,601,079	2,532,775	2,133,210	1,826,385	2,747,727	2,476,477	5,556,449	5,556,449	5,556,449	3,924,107	1,415,579	37,978,608
Note Proceeds and Interest Earnings	5,051,663	0	0	0	0	0	0	0	0	0	0	0	5,051,663
Total Receipts	7,850,450	3,157,198	6,078,518	6,024,507	4,429,625	9,814,637	12,041,503	9,584,961	9,584,961	9,584,961	7,952,620	3,843,213	89,947,155
Disbursements													
Salaries and Benefits	1,101,789	4,705,034	4,973,143	5,111,914	5,075,193	1,190,221	8,877,692	5,615,743	5,615,743	5,615,743	5,615,743	5,615,743	59,113,698
Other Disbursements	922,698	513,668	1,684,148	1,552,139	911,802	3,993,305	(915,899)	3,629,132	3,629,132	3,629,132	3,270,585	1,855,485	24,675,328
Note Payment Pledge	0	0	0	0	0	0	2,000,000	0	0	2,000,000	1,099,722	0	5,099,722
Total Disbursements	2,024,487	5,218,702	6,657,291	6,664,052	5,986,995	5,183,526	9,961,793	9,244,875	9,244,875	11,244,875	9,986,050	7,471,227	88,888,749
Net Increase/Decrease	5,825,962	(2,061,504)	(578,773)	(639,545)	(1,557,370)	4,631,112	2,079,710	340,086	340,086	(1,659,914)	(2,033,430)	(3,628,014)	1,058,407
Ending Cash	6,653,198	4,591,694	4,012,921	3,373,376	1,816,006	6,447,118	8,526,828	8,866,914	9,207,001	7,547,087	5,513,657	1,885,643	1,885,643

EXHIBIT II

2004/05 PROJECTED CASHFLOW

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	1,885,643	10,491,898	8,682,197	7,407,072	4,700,601	2,838,986	8,254,973	9,766,911	11,054,542	10,063,649	7,098,130	5,155,156	1,885,643
Receipts													
Revenue Limit: Property Tax	140,409	20,941	715,523	10,944	663,063	5,126,733	7,624,848	2,427,634	2,427,634	2,427,634	2,427,634	2,427,634	26,440,632
Revenue Limit: State Aid	1,324,628	2,649,256	1,766,170	1,766,170	1,766,170	1,766,170	1,766,170	3,090,798	1,545,399	1,545,399	1,545,399	0	20,531,730
Other Receipts	4,215,970	867,834	2,482,105	1,930,333	1,626,655	2,645,162	2,475,303	4,791,859	4,058,733	3,924,107	3,924,107	1,415,579	34,357,746
Note Proceeds and Interest Earnings	4,660,377	0	0	0	0	0	0	0	0	0	0	77,240	4,737,617
Total Receipts	10,341,383	3,538,030	4,963,799	3,707,447	4,055,888	9,538,065	11,866,321	10,310,291	8,031,766	7,897,140	7,897,140	3,920,453	86,067,725
Disbursements													
Salaries and Benefits	1,101,789	4,705,034	4,973,143	5,111,914	5,075,193	1,190,221	8,877,692	5,615,743	5,615,743	5,615,743	5,615,743	5,615,743	59,113,699
Other Disbursements	633,339	642,697	1,265,781	1,302,004	842,310	2,931,858	(363,309)	3,406,917	3,406,917	3,406,917	3,166,755	1,699,740	22,341,926
Note Payment Pledge	0	0	0	0	0	0	1,840,000	0	0	1,840,000	1,057,617	0	4,737,617
Total Disbursements	1,735,128	5,347,731	6,238,924	6,413,918	5,917,503	4,122,079	10,354,384	9,022,659	9,022,659	10,862,659	9,840,115	7,315,483	86,193,242
Net Increase/Decrease	8,606,256	(1,809,701)	(1,275,125)	(2,706,471)	(1,861,615)	5,415,987	1,511,938	1,287,632	(990,893)	(2,965,519)	(1,942,974)	(3,395,030)	(125,516)
Ending Cash	10,491,898	8,682,197	7,407,072	4,700,601	2,838,986	8,254,973	9,766,911	11,054,542	10,063,649	7,098,130	5,155,156	1,760,126	1,760,126

ALAMEDA UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Independent Auditors' Report on Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2003

Board of Trustees
Alameda City Unified School District
2200 Central Avenue
Alameda, California 94501

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alameda City Unified School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Alameda City Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alameda City Unified School District as of June 30, 2003, 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 November 24, 2003, on our consideration of Alameda City Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Alameda City Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Bohren and Company
An Accountancy Corporation
November 24, 2003

This section of Alameda Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2003. Please read it in conjunction with the financial statements to enhance the understanding of the District's financial performance.

Financial Highlights

- ⇒ The District's financial status continued to meet the State's requirements, including the maintenance of a 3% reserve for economic uncertainties.
- ⇒ Enrollment in the District remained flat, resulting in no new Revenue Limit income to the District.
- ⇒ The State's midyear cuts significantly impacted the District's finances. The District did not receive anticipated revenue in Mandated Cost reimbursement. However, the District did implement the Flexibility Transfer provision of utilizing restricted reserves to backfill the cuts.
- ⇒ The District Superintendent's Education Advisory Committee (SEAC) continued to play a significant role in the budget development by identifying budget reductions necessary to balance a budget.
- ⇒ The District's Measure A, a \$109 per parcel assessment, generated \$1.8 million in local revenues.

Overview of the Financial Statements

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, *Management's Discussion and Analysis*. The three sections together provide a comprehensive overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- ⇒ District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- ⇒ Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements:
 - Basic services funding (i.e., regular and special education) is described in the governmental funds statements. These statements include short-term financing and balance remaining for future spending.
 - Short and long-term financial information about the activities of the District that operate like businesses (such as food service or self-insurance funds) is provided in the proprietary funds statement.

- Financial relationships, for which the District acts solely as an agent or trustee, for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financial statements, included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant fund, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- ⇒ Some funds are required by state law and by bond covenants.
- ⇒ The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debt) or to show that it is properly using certain revenues (such as Federal grants).

The District has three kinds of funds:

- ⇒ *Governmental Funds* - Most of the District's basic services are included in governmental funds, which generally focus on a) how cash and other financial assets can readily be converted to cash flow in and out, and b) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- ⇒ *Fiduciary Funds* - For assets that belong to others, such as scholarship funds and/or student activity funds, the District acts as the trustee, or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets reports the District's fiduciary activities. These activities are excluded from the district-wide financial statements, as the assets cannot be used by the District to finance its operations.

Financial Analysis of the District as a Whole

The District shows total assets of \$37,092,004. This is net of accumulated depreciation of \$21,460,978. The District's liabilities total \$43,539,068. As a result, the District's combined net assets as of June 30, 2003 were \$(6,447,064).

Note that 2002-2003 is the first year of implementation of Net Assets under GASB 34 requirements. A comparative analysis of government-wide data will be presented in future years.

Financial Analysis of the District's Funds

The District General Fund reported an ending fund balance of \$3,568,030. The components of the Ending Fund Balance were: Revolving Cash, \$50,000; Legally Restricted Balance, \$826,178; Designated for Economic Uncertainties, \$2,295,076; and Other Designations, \$396,775.

All other funds in the District reported positive Ending Balances.

Capital Asset and Debt Administration

The District is reporting Capital Assets and Debt Administration for the first time; therefore, no comparative year date is available. Comparative data will be presented in future years.

The District's Capital Assets consist of land, site improvements, buildings, and equipment. Acquisition costs were used to determine the value of capital assets. All of the District's buildings are more than 25 years old.

Factors Bearing on the District's Future

- ⇒ The District has made significant budget reductions over the last three years in order to have balanced budgets.
- ⇒ The State of California continues to be in a budget crisis.
- ⇒ The District passed a parcel tax that generates about \$1.8 million per year for five years. After five years, the authorization must be renewed.
- ⇒ The District is in contract negotiations with its three employee groups.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, tax payers, parents, investors, and creditors with a general overview of the District's accountability for the money it receives. If you have any questions regarding this report or need additional information, contact Lorenzo Legaspi, Chief Financial Officer, Alameda Unified School District, 2200 Central Avenue, Alameda, CA 94501.

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 YEAR ENDED JUNE 30, 2003

EXHIBIT A-1

Basic Financial Statements

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 3,577,741	\$ 0	\$ 3,577,741
Investments			
Receivables	8,630,419		8,630,419
Due from other funds			
Stores	43,984		43,984
Prepaid expenses			
Other current assets			
Capital assets:			
Land	4,734,638		4,734,638
Improvement of sites	2,420,495		2,420,495
Buildings	38,086,218		38,086,218
Equipment	1,059,487		1,059,487
Work in progress			0
Less accumulated depreciation	<u>(21,460,978)</u>		<u>(21,460,978)</u>
Total assets	<u>37,092,004</u>	<u>0</u>	<u>37,092,004</u>
Liabilities			
Accounts payable and other current liabilities	4,360,120	0	4,360,120
Due to other funds			
Current loans			
Deferred revenue	1,431,526		1,431,526
Long-term liabilities:			
Due within one year	3,445,617		3,445,617
Due in more than one year	<u>34,301,805</u>		<u>34,301,805</u>
Total liabilities	<u>43,539,068</u>	<u>0</u>	<u>43,539,068</u>
Net Assets			
Invested in capital assets, net of related debt	(12,077,443)	0	(12,077,443)
Restricted for:			
Capital projects	4,483,629		4,483,629
Debt service	422,342		422,342
Educational programs	396,775		396,775
Other purposes (expendable)	327,633		327,633
Other purposes (nonexpendable)			
Unrestricted			
Total net assets	<u>\$ (6,447,064)</u>	<u>\$ 0</u>	<u>\$ (6,447,064)</u>

The accompanying notes are an integral part of this statement.

Functions	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Distributions	Governmental Activities	Business-type Activities	
Governmental activities							
Instruction	\$ 50,458,072	\$ 207,548	\$ 14,643,769	197,152	\$ (35,410,613)	\$	\$ (35,410,613)
Instruction-related services:							
Supervision of instruction	2,688,470	33,474	1,635,159	0	(1,029,837)		(1,029,837)
Instructional library, media and technology	1,503,324	2,038	281,816	0	(1,219,470)		(1,219,470)
School administration	5,550,155	122	418,311	0	(5,130,722)		(5,130,722)
Pupil services:							
Home-to-school transportation	700,267	0	520,154	0	(180,113)		(180,113)
Food services	2,181,635	1,037,837	1,031,999	0	(111,799)		(111,799)
All other pupil services	2,774,522	1,427	574,323	0	(2,198,772)		(2,198,772)
General administration							
Data processing	583,332	0	0	0	(583,332)		(583,332)
All other general administration	4,107,652	60,131	872,406	0	(3,175,115)		(3,175,115)
Plant services	7,214,420	5,569	92,426	0	(7,116,425)		(7,116,425)
Ancillary services	128,573	443	95,673	0	(32,457)		(32,457)
Community services	74,186	0	74,186	0	0		0
Enterprise activities	0	0	0	0	0		0
Interest on long-term debt	2,087,875	0	0	0	(2,087,875)		(2,087,875)
Other outgo	10,220,369	1,007,228	8,504,844	0	(708,497)		(708,497)
Depreciation (unallocated)	0	0	0	0	0		0
Business-type activities:							
Food services	0	0	0	0	0	0	0
Enterprise activities	0	0	0	0	0	0	0
General administration	0	0	0	0	0	0	0
Plant services	0	0	0	0	0	0	0
Other outgo	0	0	0	0	0	0	0
Total expenses	\$ 90,283,852	\$ 2,355,617	\$ 26,745,856	\$ 187,152	\$ (68,985,027)	\$ 0	\$ (68,985,027)
General revenues							
Taxes and subventions:							
Taxes levied for general purpose					24,402,821		24,402,821
Taxes levied for debt service					3,846,514		3,846,514
Taxes levied for other specific purposes					1,721,882		1,721,882
Federal and state aid not restricted to specific purposes					29,782,315		29,782,315
Interest and investment earnings					674,057		674,057
Interagency revenues					334,863		334,863
Miscellaneous					392,744		392,744
Special and extraordinary items					0		0
Internal transfers					0		0
Total general revenues, special and extraordinary items, and transfers				351,168,921	61,155,198	0	61,155,198
Change in net assets					2,170,169	0	2,170,169
Net assets beginning					(8,617,233)		(8,617,233)
Net assets ending					\$ (6,447,064)	\$ 0	\$ (6,447,064)

The accompanying notes are an integral part of this statement.

The accompanying notes are an integral part of this statement.

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2003

	General Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 587,288	\$ 3,946,980	\$ (1,197,476)	\$ 3,336,793
Cash on Hand and in Banks	169,948	0	1,000	180,948
Cash in Revolving Fund	50,000	0	0	50,000
Accounts Receivable	7,750,270	71,040	828,109	8,650,419
Due from Other Funds	983,239	4,283	3,002,541	3,970,033
Stores Inventories	0	0	43,984	43,984
Total Assets	\$ 9,520,745	\$ 4,022,273	\$ 2,679,159	\$ 16,222,177
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 3,887,069	\$ 339	\$ 502,714	\$ 4,390,121
Due to Other Funds	673,771	2,286,170	1,030,092	3,970,033
Deferred Revenue	1,421,975	0	9,691	1,431,629
Total Liabilities	\$ 5,982,815	\$ 2,286,508	\$ 1,542,497	\$ 9,811,820
Fund Balance:				
Reserved Fund Balance:				
Reserve for Revolving Cash	60,000	0	0	60,000
Reserve for Stores Inventories	0	0	43,984	43,984
Reserve for Legally Restricted Balance	826,178	0	0	826,178
Designated Fund Balance:				
Designated for Economic Uncertainties	2,295,076	0	0	2,295,076
Other Designated	396,775	0	0	396,775
Unreserved:				
Unreserved, reported in nonmajor:	1	0	0	1
Special Revenue Funds	0	0	628,757	628,757
Debt Service Funds	0	0	215,893	215,893
Capital Projects Funds	0	1,755,785	350,088	2,105,833
Total Fund Balance	\$ 3,588,030	\$ 1,755,785	\$ 1,195,702	\$ 6,480,497
Total Liabilities and Fund Balances	\$ 9,520,745	\$ 4,022,273	\$ 2,679,159	\$ 16,222,177

EXHIBIT A-4

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Total fund balances – governmental funds:	\$	6,460,497	
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$46,300,838 and the accumulated depreciation is \$(21,460,978).			
		24,839,860	
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:			
Capital leases payable	\$	(1,768,493)	
General obligation bond payable		(32,230,000)	
Certificates of participation		(2,918,810)	
Compensated absences (vacation)		<u>(630,119)</u>	(37,747,422)
Rounding difference			<u>1</u>
Total net assets - governmental activities	\$	<u>(6,447,064)</u>	

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

EXHIBIT A-5

	General Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 24,448,193	\$ 0	\$ 1,244,488	\$ 25,692,681
Local Sources	25,358,013	0	0	25,358,013
Federal Revenue	5,728,799	0	1,306,054	7,034,853
Other State Revenue	23,339,493	0	1,680,735	25,020,228
Other Local Revenue	3,257,730	290,082	5,819,673	9,367,465
Total Revenues	<u>82,132,228</u>	<u>290,062</u>	<u>10,050,930</u>	<u>92,473,220</u>
Expenditures:				
Certificated Salaries	40,056,141	0	1,379,591	41,435,732
Classified Salaries	10,295,721	336,968	1,469,868	12,102,557
Employee Benefits	10,789,980	53,853	644,606	11,488,239
Books and Supplies	2,889,058	2,786	1,156,498	4,048,342
Services and Other Operating Expenditures	8,080,239	6,724	610,828	8,697,791
Capital Outlay	176,816	1,647,202	2,111,085	3,935,103
Other Outgo	10,819,634	0	4,219,584	14,839,218
Total Revenues	<u>82,907,589</u>	<u>2,047,333</u>	<u>11,592,050</u>	<u>96,546,982</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(775,361)</u>	<u>(1,757,271)</u>	<u>(1,541,130)</u>	<u>(4,073,762)</u>
Other Financing Sources (Uses):				
Operating Transfers In	120,597	0	796,477	917,074
Operating Transfers Out	(248,226)	(548,251)	(120,597)	(917,074)
Other sources	53,901			53,901
Total Other Financing Sources (Uses)	<u>(73,728)</u>	<u>(548,251)</u>	<u>675,880</u>	<u>53,901</u>
Net Change in Fund Balance	<u>(849,089)</u>	<u>(2,305,522)</u>	<u>(865,250)</u>	<u>(4,019,861)</u>
Fund Balance, July 1	4,417,119	4,061,287	2,001,852	10,480,358
Fund Balance, June 30.	<u>\$ 3,568,030</u>	<u>\$ 1,755,765</u>	<u>\$ 1,136,702</u>	<u>\$ 6,460,497</u>

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

EXHIBIT A-6

Total net changes in fund balances - governmental funds	\$ (4,019,861)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$4,565,389 exceeds depreciation expense (\$667,852) in the period.	3,897,537
The governmental funds report debt proceeds as another financing source, while repayment of debt principal is reported as an expenditures.	
Payment of bond principal	\$ 2,095,000
Payment of capital leases	213,928
Payment of certificates of participation	168,145
	2,477,073
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$184,579.	(184,579)
Rounding difference	(1)
Change in net assets of governmental activities - statement of activities	\$ 2,170,169

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
<i>State Apportionments</i>	\$ 24,908,315	\$ 23,446,113	\$ 24,448,193	\$ 1,002,080
<i>Local Sources</i>	24,244,182	26,377,577	25,358,013	(1,019,584)
<i>Federal Revenue</i>	4,062,111	6,336,038	5,728,799	(607,239)
<i>Other State Revenue</i>	22,601,987	24,784,662	23,339,493	(1,445,169)
<i>Other Local Revenue</i>	2,854,600	3,474,240	3,257,730	(216,510)
Total Revenues	78,671,195	84,418,530	82,132,228	(2,286,402)
Expenditures:				
<i>Certificated Salaries</i>	39,168,838	40,206,012	40,056,141	149,871
<i>Classified Salaries</i>	9,846,437	10,356,644	10,295,721	60,923
<i>Employee Benefits</i>	10,128,951	10,875,592	10,789,980	85,612
<i>Books and Supplies</i>	2,390,184	5,649,702	2,889,058	2,760,644
<i>Services and Other Operating Expenditures</i>	7,129,201	8,731,838	8,080,239	651,599
<i>Capital Outlay</i>	460,316	554,681	176,816	377,865
<i>Other Outgo</i>	9,448,220	10,758,613	10,619,634	138,979
Total Expenditures	78,572,127	87,133,082	82,907,589	4,225,493
Excess (Deficiency) of Revenues Over (Under) Expenditures	99,068	(2,714,462)	(775,361)	1,939,091
Other Financing Sources (Uses):				
<i>Operating Transfers In</i>	120,597	120,597	120,597	0
<i>Operating Transfers Out</i>	(248,226)	(248,226)	(248,226)	0
<i>Other Sources</i>	0	53,901	53,901	0
Total Other Financing Sources (Uses)	(127,629)	(73,728)	(73,728)	0
Net Change In Fund Balance	(28,561)	(2,788,180)	(849,089)	1,939,091
Fund Balance, July 1	4,417,119	4,417,119	4,417,119	0
Fund Balance, June 30	\$ 4,388,558	\$ 1,628,939	\$ 3,568,030	\$ 1,939,091

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 223,145	\$ 222,024	\$ 290,062	\$ 68,038
Total Revenues	<u>223,145</u>	<u>222,024</u>	<u>290,062</u>	<u>68,038</u>
Expenditures:				
Classified Salaries	106,141	336,969	336,968	1
Employee Benefits	13,786	53,653	53,653	0
Books and Supplies	2,100	2,790	2,786	4
Services and Other Operating Expenditures	1,000	6,725	6,724	1
Capital Outlay	1,230,582	1,647,202	1,647,202	0
Total Expenditures	<u>1,353,609</u>	<u>2,047,339</u>	<u>2,047,333</u>	<u>6</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,130,464)</u>	<u>(1,825,315)</u>	<u>(1,757,271)</u>	<u>68,044</u>
Other Financing Sources (Uses):				
Operating Transfers Out	0	(548,252)	(548,251)	1
Total Other Financing Sources (Uses)	<u>0</u>	<u>(548,252)</u>	<u>(548,251)</u>	<u>1</u>
Net Change in Fund Balance	<u>(1,130,464)</u>	<u>(2,373,567)</u>	<u>(2,305,522)</u>	<u>68,045</u>
Fund Balance, July 1	<u>4,061,287</u>	<u>4,061,287</u>	<u>4,061,287</u>	<u>0</u>
Fund Balance, June 30	<u>\$ 2,930,823</u>	<u>\$ 1,687,720</u>	<u>\$ 1,755,765</u>	<u>\$ 68,045</u>

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

EXHIBIT A-9

	Private-Purpose Trust Funds	Agency Fund
ASSETS:		
Cash in Banks	\$ 448,580	\$ 466,306
Total Assets	<u>448,580</u>	<u>466,306</u>
LIABILITIES:		
Due to Student Groups	0	466,306
Total Liabilities	<u>0</u>	<u>466,306</u>
NET ASSETS:		
Held in Trust	448,580	0
Total Net Assets	<u>\$ 448,580</u>	<u>\$ 0</u>

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2003

EXHIBIT A-10

	Private-Purpose Trust Funds
Additions:	
Investment Income	\$ 6,462
Contributions	378,291
Total Additions	<u>384,753</u>
Deductions:	
Scholarship Awards	9,144
Total Deductions	<u>9,144</u>
Change in Net Assets	375,609
Net Assets-Beginning of the Year	72,971
Net Assets-End of the Year	<u>\$ 448,580</u>

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

A. Summary of Significant Accounting Policies

1. Accounting Policies

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

For the fiscal year ended June 30, 2003, the District implemented the new reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial reporting model has been implemented.

2. Reporting Entity

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

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

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

3. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37 (GASB 37), "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", and GASB Statement No. 38 (GASB 38), "Certain Financial Statement Note Disclosure". GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentations, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for a decrease of \$12,907,561, for a net assets balance of \$(6,447,064) at June 30, 2003 on the government-wide financial statements.

4. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use 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 under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocation of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its asset, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, proprietary and fiduciary funds.

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The District reports the following major governmental funds:

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

The Special Reserve Fund for capital projects exists primarily to provide for the accumulation of monies for capital outlay purposes.

In addition, the District reports the following nonmajor governmental funds:

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

- The Adult Education Fund is used to account separately for federal, state, and local revenues for adult education programs.
- The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs.
- The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program.
- The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes.

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 following debt service fund is maintained by the District:

- 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.

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:

- 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).
- The County School Facilities Fund is established to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants.

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

Private Purpose Trust Funds are used to account for donations which have stipulations that the principal may not be expended; only the income may be used for a specific purpose. The following private purpose trust fund is utilized by the District:

- The Foundation Trust Fund exists primarily to account separately for money received from gifts or bequests.

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

- Student Body Funds are used to account for the activities of the student groups.

7. Measurement Focus Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

8. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

The budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the governmental funds in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

9. Encumbrances

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

10. Assets, Liabilities, and Equity

a. Deposits and Investments

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

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Alameda County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

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

b. Stores Inventories/Prepaid Items

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

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$15,000 is used.

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

Asset Class	Estimated Useful Lives
Site Improvements	20
School Buildings	50
Portable Classrooms	25
Vehicles	8
Office Equipment	20
Computer Equipment	5
Copiers	10
Cafeteria Equipment	15

d. Deferred Revenue

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

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District.

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

f. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

g. Fund Balance Reserves and Designations

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

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

h. Revenue Limit/Property Taxes

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportionments secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California "Revenue and Taxation Code". This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

i. Interfund Activity

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

j. Use of Estimates

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

B. Excess of Expenditures Over Appropriations

As of June 30, 2003, the District recorded no significant expenditures exceeding appropriations in individual funds.

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

C. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

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

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

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

D. Cash

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury as part of the common investment pool (\$3,336,793 as of June 30, 2003). The fair value of the District's portion of this pool as of that date was not provided by the pool sponsor. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$1,105,834 as of June 30, 2003) and in the revolving fund (\$50,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

E. Accounts Receivable

Accounts receivable as of June 30, 2003, consist of the following:

	General Fund	Special Reserve Fund	All Other Governmental Funds	Totals
Federal Government:				
Categorical aid programs	\$ 1,024,851	\$ 0	\$ 168,501	\$ 1,193,352
State Government:				
Categorical aid programs	1,536,030	0	0	1,536,030
Special Allowances	4,627,208		604,448	5,231,656
Total state government	6,163,238	0	604,448	6,767,686
Local Government:				
Developer fees	0	0	15,467	15,467
Interest	139,485	37,750	28,192	203,427
Other	402,896	33,290	14,501	450,487
Total local	542,181	71,040	56,160	669,381
Total accounts receivable	\$ 7,730,270	\$ 71,040	\$ 829,109	\$ 8,630,419

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

F. Interfund Transactions

Interfund transaction are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as Interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund/Receivables/Payables (Due From/Due To)

As of June 30, 2003, interfund receivables and payables were as follows:

Funds	Interfund Receivables	Interfund Payables
General Fund	\$ 963,239	\$ 673,771
Special Reserve Fund	4,253	2,266,170
Nonmajor governmental funds	3,002,641	1,030,092
Total	\$ 3,970,033	\$ 3,970,033

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2002-2003 were as follows:

Funds	Transfers in	Transfers Out
General Fund	\$ 120,597	\$ 248,226
Special Reserve Fund	0	548,251
Other governmental funds		
Deferred Maintenance Fund	748,251	0
Child Development Fund	48,226	0
Capital Facilities Fund	0	120,597
Total	\$ 917,074	\$ 917,074

Transfer of \$200,000 from the General Fund to the Deferred Maintenance Fund to support state matching requirements.

Transfer of \$548,251 from the Special Reserve Fund to the Deferred Maintenance Fund to support state matching requirements.

Transfer of \$120,597 from the Capital Facilities Fund to the General Fund to support operations.

Transfer of \$48,226 from the General Fund to the Child Development Fund to support operations.

G. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,734,638	\$ 0	\$ 0	\$ 4,734,638
Work in progress	0	0	0	0
Total capital assets not being depreciated	4,734,638	0	0	4,734,638
<i>Capital assets being depreciated:</i>				
Buildings	33,657,754	4,428,464	0	38,086,218
Improvements	2,420,495	0	0	2,420,495
Equipment	922,562	136,925	0	1,059,487
Total capital assets being depreciated	37,000,811	4,565,389	0	41,566,200
<i>Less accumulated depreciation for:</i>				
Buildings	17,949,999	605,580	0	18,555,579
Improvements	2,277,792	18,066	0	2,295,858
Equipment	565,335	44,186	0	609,521
Total accumulated depreciation	20,793,126	667,832	0	21,460,958
Total capital assets being depreciated, net	16,207,685	3,897,557	0	20,105,242
Governmental activities capital assets, net	\$ 20,942,323	\$ 3,897,537	\$ 0	\$ 24,839,860

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

Depreciation was charged to functions as follows:

Instruction	\$ 5,724
Instruction-Related Services	9,140
Pupil Services	1,677
General Administration	3,490
Plant Services	647,821
Total	\$ 667,852

H. General Obligation Bonds

The outstanding General Obligation Bonded Debt of the District as of June 30, 2003, is as follows:

Bond	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2002	Redeemed During Year	Bonds Outstanding June 30, 2003
2002	5.5%	2015	\$ 34,325,000	\$ 34,325,000	\$ 2,095,000	\$ 32,230,000

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2003, are as follows:

Year Ending June 30	Principal	Interest	Total
2004	\$ 2,210,000	\$ 1,772,650	\$ 3,982,650
2005	2,335,000	1,651,100	3,986,100
2006	2,460,000	1,522,675	3,982,675
2007	2,595,000	1,387,375	3,982,375
2008	2,740,000	1,244,650	3,984,650
2009-2013	16,115,000	3,791,425	19,906,425
2014	3,775,000	207,625	3,982,625
Total	\$ 32,230,000	\$ 11,577,500	\$ 43,807,500

I. Certificates of Participation

In May 1998, the District issued Certificates of Participation (COPs). Semi-annual payments are made at varying interest rates from 5.15% to 8.0%. The certificates mature through May 1, 2020, as follows:

Year Ended June 30	Principal	Interest	Total
2004	\$ 176,197	\$ 145,242	\$ 321,439
2005	184,396	136,759	321,155
2006	192,750	128,206	320,956
2007	201,266	119,263	320,529
2008	209,952	109,565	319,517
2009-2013	859,249	410,936	1,270,185
2014-2018	680,000	217,172	907,172
2019-2020	405,000	40,071	445,071
Total	\$ 2,918,810	\$ 1,307,214	\$ 4,226,024

J. Capital Leases

The District leases facilities and equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2004	\$ 348,458
2005	348,458
2006	348,458
2007	307,992
2008	257,522
2009-2011	607,142
Total Minimum Lease Payments	2,226,030
Less Amount Representing Interest	(459,537)
Present Value of Net Minimum Lease Payments	\$ 1,766,493

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

K. Long-Term Obligations

A schedule of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 34,325,000	\$ 0	\$ 2,095,000	\$ 32,230,000	2,210,000
Certificates of participation	3,086,955	0	168,145	2,918,810	178,197
Capital leases	1,982,421		213,928	1,768,493	228,301
Compensated absences	645,540	184,579	0	830,119	830,119
Total governmental activities	\$ 40,039,916	\$ 184,579	\$ 2,477,073	\$ 37,747,422	\$ 3,445,617

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation are made by the General Fund. The accrued vacation will be paid by the fund for which the employee worked.

L. Joint Ventures (Joint Powers Agreements)

The Alameda City Unified School District participates in two joint ventures under joint powers agreements (JPAs). The relationship between the District and the JPAs is such that the JPAs are not component units of the Alameda City Unified School District for financial reporting purposes.

Alameda County Schools Insurance Group (ACSIG) - The ACSIG arranges for and provides vision insurance for its members.

Oakland/Alameda Regional Occupational Program arranges for and provides occupational training for students of the participating districts.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including selection of management and approval of operating budgets. Independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and share surpluses and deficits proportionate to their participation in the JPAs.

Separate financial statements of the JPAs for June 30, 2003 were not available.

M. Charter Schools

The District has granted and approved two charter schools pursuant to Education Code Section 47605.

The Bay Area School of Enterprise was granted and approved on May 16, 2001, for a term of five years commencing on July 1, 2001. This school is fiscally independent and has a separate audit.

The Alameda Community Learning Center was granted and approved on December 12, 2002, for a term of five years commencing on July 1, 2003. For disclosure purposes, the financial activities of this charter school are presented in the District's General Fund.

N. Employee Retirement Systems

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

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and

ALAMEDA CITY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2002-03 were 2.894% of payroll for the six months ending December 31, 2002, and 2.771% of payroll for the remaining six months ending June 30, 2003. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$353,681, \$0 and \$0, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$3,225,090, \$3,027,019 and \$2,868,300, respectively, and equal 100% of the required contributions for each year.

O. Commitments and Contingencies

Litigation

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

State and Federal Allowances, Awards, and Grants

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

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ALBANY UNIFIED SCHOOL DISTRICT

Board of Education

David Farrell
President

Miriam Walden
Vice President

Charles Blanchard
Member

Michael Barnes
Member

Sherri S. Moradi
Member

DISTRICT ADMINISTRATION

Dr. William Wong
District Superintendent of Schools

Margaret Romero
*Assistant Superintendent
Business Services*

Marla Stevenson
*Assistant Superintendent
Pupil Service/Personnel*

GENERAL AND FINANCIAL INFORMATION

The District includes approximately 1.8 square miles in the northern part of Alameda County and provides educational (K-12) services to the residents of the City of Albany (the "City"). The estimated population of the District is 16,460.

The District operates three elementary schools (K-5), one middle school (6-8), one high school (9-12), one continuation school and one adult school.

The District's 2003/04 pupil-teacher ratios are 20:1 for grades K-3, 29:1 for grades 4-8, and 30:1 for grades 9-12.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered elections. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. William Wong has served in this capacity since July 2002.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

ALBANY UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(a)	2,823
2001/02 ^(b)	2,916
2002/03 ^(b)	3,042
2003/04 ^(c)	3,153
2004/05 ^(c)	3,172

^(a) Includes grades K-12, special education, and continuation students; does not include adult education or ROP.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 9, 2004.

The District employs 198 full-time equivalent certificated and 116 full-time equivalent classified employees. There are three formal bargaining organizations that are active in the District.

ALBANY UNIFIED SCHOOL DISTRICT
Labor Relations

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration</u>
Albany Teachers Association	200	June 30, 2004
California Schools Employees Association	106	June 30, 2004 ^(a)
Service Employees International Union, Local 790	30	June 30, 2004 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Alameda County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX C — ALAMEDA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION- State Funding of Education**" and "**— Average Daily Attendance**" herein.

ALBANY UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$13,319,440	63.65%
2001/02 ^(a)	13,945,281	63.74
2002/03 ^(a)	14,907,240	66.34
2003/04 ^(b)	15,208,336	65.96
2004/05 ^(b)	15,297,529	68.40

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 9, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects an increase of three full-time equivalent certificated and a reduction of one full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 1.84% negotiated salary increase for certificated employees, and a 1.84% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 3.53% in the 2004/05 fiscal year.

ALBANY UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$16,979,733	82.60%
2001/02 ^(a)	19,509,510	85.13
2002/03 ^{(a),(b)}	19,192,827	87.27
2003/04 ^(c)	18,763,774	83.75
2004/05 ^(c)	19,425,249	86.89

^(a) Audited Financial Statements.

^(b) Expenditure details from Unaudited Financial Statement.

^(c) Second Interim Report adopted on March 9, 2004.

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

ALBANY UNIFIED SCHOOL DISTRICT General Fund Revenue, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^{(a)(b)}	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources					\$15,297,529
State Aid	\$ 7,441,507	\$ 7,339,463	\$ 8,326,446	\$ 8,279,801	
Property Taxes	5,877,933	6,605,818	6,580,794	6,928,535	
Federal Revenue	488,572	538,951	705,346	826,426	651,138
Other State Revenue	2,689,750	3,086,810	2,234,228	2,319,351	1,819,848
Other Local Revenue	2,696,737	2,818,710	4,625,059	4,701,570	4,597,012
Other	1,732,770	1,489,745	0	0	0
Total Revenues	20,927,269	21,879,497	22,471,873	23,055,683	22,365,527
Expenditures					
Certificated Salaries	10,778,435	12,178,020	11,813,553	11,829,128	12,121,990
Classified Salaries	3,016,173	3,490,797	3,206,394	2,985,290	3,030,269
Employee Benefits	3,185,125	3,840,693	4,172,881	3,949,356	4,272,990
Books and Supplies	741,692	637,945	611,950	1,014,979	1,067,387
Services, Other Operating Expenses	2,412,611	2,546,855	2,292,516	2,823,374	2,057,352
Capital Outlay	167,525	125,693	5,413	0	0
Other Outgo	256,202	96,993	(110,832)	(198,152)	(194,010)
Total Expenditures	20,557,763	22,916,996	21,991,873	22,403,975	22,355,978
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	0	0	0	0	0
Interfund Transfers Out / Other Uses	0	0	(138,175)	(181,251)	(171,251)
Total Other Financing Sources/(Uses)	0	0	(138,175)	(181,251)	(171,251)
Excess of Revenues Over (Under) Expenditures	369,506	(1,037,499)	341,825	470,457	(161,702)
Beginning Fund Balance	896,741	1,266,247	421,817	984,234	1,454,691
Prior Year Adjustments	0	193,069	220,592	0	0
Ending Fund Balance	\$ 1,266,247	\$ 421,817	\$ 984,234	\$ 1,454,691	\$ 1,292,990

^(a) Audited Financial Statements.

^(b) Expenditure details from Unaudited Financial Statement.

^(c) Second Interim Report adopted on March 9, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. The District participated in the Alameda County Office of Education's issue of tax and revenue anticipation notes (the "ACOE TRAN") dated July 1, 2003, and due June 30, 2004. The District received the principal amount of \$3,000,000 from the ACOE TRAN. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "ALBANY SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Subsequent to the date of the Audited Financial Statement, June 30, 2003, the District issued General Obligation Bonds, Election of 1993, Series G in the amount of \$4,600,000 on February 1, 2004. The bonds represent the seventh and final series issued under this authorization.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.75 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

ALBANY UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 2,277,006
Projected 2004/05 Cash Receipts (Including Note Proceeds)	26,718,273
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(24,124,739)</u>
Balance	\$ 4,870,540
Note Repayment	\$ 2,780,775
NOTE COVERAGE RATIO	1.75 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “**THE NOTES — Other District Funds**” herein.

ALBANY UNIFIED SCHOOL DISTRICT Other District Funds

<u>Funds</u>	<u>June 30, 2003, Balance ^(a)</u>	<u>June 30, 2004, Estimated Balance ^(b)</u>	<u>June 30, 2005, Estimated Balance ^(b)</u>
Special Revenue Funds			
Adult Education	\$ 324,006	\$ 485,023	\$ 450,000
Cafeteria	21,004	21,004	20,000
Deferred Maintenance	202,625	222,768	100,000
Subtotal for Special Revenue Funds	<u>547,635</u>	<u>728,795</u>	<u>570,000</u>
Capital Project Funds			
Building	629,678	4,869,456	1,000,000
Capital Facilities	185,512	222,431	50,000
State School Building Lease-Purchase	185,512	6,312	100,000
Tax Override Fund	5,936	0	0
Subtotal for Capital Project Funds	<u>1,006,637</u>	<u>5,098,199</u>	<u>1,150,000</u>
Total Alternate Liquidity	<u>\$1,554,272</u>	<u>\$5,826,994</u>	<u>\$1,720,000</u>

^(a) Unaudited Financial Statement.

^(b) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

**District: Albany Unified School District
2004 Tax and Revenue Anticipation Notes**

EXHIBIT I

2003/04 ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	2,421,660	4,866,108	4,874,962	4,434,126	3,352,634	2,772,968	4,926,333	4,589,443	4,372,988	4,147,250	5,117,404	3,594,017	2,421,660
Receipts													
Revenue Limit: Property Tax	28,541	6,846	161,654	28,752	159,429	1,231,532	2,566,260	(111,652)	200,000	2,225,000	200,000	232,174	6,928,535
Revenue Limit: State Aid	485,148	901,201	616,155	616,155	616,155	616,155	616,155	1,369,041	610,909	610,909	610,909	0	7,668,892
Other Receipts	600,402	631,119	739,482	497,456	719,309	1,496,099	1,231,930	582,026	622,468	1,772,864	749,198	527,536	10,169,889
Note Proceeds and Interest Earnings	3,017,581	0	0	0	0	0	0	0	0	0	0	27,294	3,044,875
Total Receipts	4,131,673	1,539,166	1,517,291	1,142,363	1,494,892	3,343,786	4,414,345	1,839,414	1,433,377	4,608,773	1,560,107	787,003	27,812,191
Disbursements													
Salaries and Benefits	308,795	415,789	1,697,331	1,825,443	1,737,644	386,349	3,286,745	1,854,294	1,390,533	1,789,000	1,789,000	1,944,000	18,424,924
Other Disbursements	1,378,429	1,114,524	260,796	398,412	336,914	804,072	264,489	201,576	268,582	649,619	649,619	160,015	6,487,046
Note Payment Pledge	0	0	0	0	0	0	1,200,000	0	0	1,200,000	644,875	0	3,044,875
Total Disbursements	1,687,224	1,530,312	1,958,127	2,223,855	2,074,558	1,190,421	4,751,234	2,055,870	1,659,115	3,638,619	3,083,494	2,104,015	27,956,845
Net Increase/Decrease	2,444,448	8,854	(440,836)	(1,081,492)	(579,666)	2,153,365	(336,889)	(216,455)	(225,738)	970,154	(1,523,387)	(1,317,011)	(144,654)
Ending Cash	4,866,108	4,874,962	4,434,126	3,352,634	2,772,968	4,926,333	4,589,443	4,372,988	4,147,250	5,117,404	3,594,017	2,277,006	2,277,006

EXHIBIT II

2004/05 PROJECTED CASHFLOW

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	2,277,006	5,098,729	4,624,068	3,361,781	2,177,567	1,152,786	3,810,712	2,933,409	2,217,806	2,293,374	3,616,939	2,375,939	2,277,006
Receipts													
Revenue Limit: Property Tax	28,709	6,886	162,602	28,921	160,364	1,238,755	2,581,311	(112,307)	201,173	2,238,049	201,173	233,535	6,969,169
Revenue Limit: State Aid	496,788	993,576	662,384	662,384	662,384	662,384	662,384	1,175,358	587,679	587,679	587,679	0	7,740,681
Other Receipts	910,573	247,729	288,944	429,293	187,148	1,385,143	577,640	306,192	766,804	1,599,657	612,743	1,961,403	9,273,269
Note Proceeds and Interest Earnings	2,735,154	0	0	0	0	0	0	0	0	0	0	0	2,735,154
Total Receipts	4,171,224	1,248,191	1,113,929	1,120,598	1,009,895	3,286,282	3,821,335	1,369,243	1,555,657	4,425,385	1,401,595	2,194,939	26,718,273
Disbursements													
Salaries and Benefits	321,823	430,763	1,757,210	1,890,601	1,797,842	399,777	3,402,220	1,919,344	1,422,488	1,853,608	1,853,608	2,012,446	19,061,729
Other Disbursements	1,027,679	1,292,089	619,007	414,211	236,835	228,579	216,417	165,502	57,601	168,211	168,211	468,667	5,063,010
Note Payment Pledge	0	0	0	0	0	0	1,080,000	0	0	1,080,000	620,775	0	2,780,775
Total Disbursements	1,349,501	1,722,852	2,376,216	2,304,812	2,034,676	628,356	4,698,637	2,084,846	1,480,088	3,101,820	2,642,595	2,481,113	26,905,514
Net Increase/Decrease	2,821,723	(474,661)	(1,262,287)	(1,184,213)	(1,024,781)	2,657,926	(877,302)	(715,603)	75,568	1,323,565	(1,241,000)	(286,174)	(187,241)
Ending Cash	5,098,729	4,624,068	3,361,781	2,177,567	1,152,786	3,810,712	2,933,409	2,217,806	2,293,374	3,616,939	2,375,939	2,089,765	2,089,765

ALBANY UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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WILKINSON & HADLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

250 E. DOUGLAS AVE., SUITE 200
EL CAJON, CA 92020
TEL (619) 447-6700 • FAX (619) 447-6707

Independent Auditor's Report on Financial Statements

Board of Trustees
Albany Unified School District
Albany, California 94706

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Albany Unified School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Albany Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Albany Unified School District as of June 30, 2003, 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 January 9, 2004, on our consideration of Albany Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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


Wilkinson & Hadley, LLP
January 9, 2004

**ALBANY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

This discussion and analysis of the Albany Unified School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the district's financial performance.

USING THESE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2002-03 are as follows:

- Total net assets are \$21,232,671.
- Unrestricted net assets (assets not invested in buildings, land, or equipment, and not restricted for debt payment or reserved for projects and educational programs) are \$753,013.
- Outstanding Capital Lease-Purchase Debt decreased from \$119,501 to \$61,485 during the 2002-03 fiscal year.
- Outstanding General Obligation Bonds Debt decreased from \$25,295,000 to \$24,315,000 during the 2002-03 fiscal year.
- Outstanding Other Long-Term Debt (net changes to early retirement incentive plans) increased from \$112,781 to \$160,863 during the 2002-03 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

Statement of Net Assets and Statement of Activities

While this document contains several funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during 2002-2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

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

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

REPORTING THE DISTRICTS MOST SIGNIFICANT INDIVIDUAL FUNDS

Fund Financial Statements

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

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

ALBANY UNIFIED SCHOOL DISTRICT AS A COMPLETE FINANCIAL ENTITY

Recall that the Statement of Net Assets provides the perspective of the district as a whole. Table 1 provides a summary of the district's net assets for 2002-03.

Table 1
Statement of Net Assets
June 30, 2003

Assets	
Cash	\$8,663,650
Investments	47,744
Receivables	1,498,793
Due from other funds	-
Stores	19,004
Prepaid expenses	11,784
Capital assets:	
Land	4,394,935
Sites and improvements	1,378,096
Buildings and improvements	37,570,499
Equipment	5,303,535
Work in progress	35,667
Less accumulated depreciation	<u><6,282,060></u>
Total assets	<u>\$52,641,647</u>
Liabilities	
Accounts payable and other current liabilities	\$3,746,511
Due to other funds	-
Current loans	3,000,000
Deferred revenue	125,117
Long-term liabilities:	
Due within one year	1,002,348
Due in more than one year	<u>23,535,000</u>
Total liabilities	<u>\$31,408,976</u>
Net Assets	
Invested in capital assets, net of related debt	\$17,863,324
Restricted	2,616,334
Unrestricted	<u>753,013</u>
Total net assets	<u>\$21,232,671</u>

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

Table 2
Revenue - Governmental Activities

	<u>2002-03</u>
General revenue	\$21,917,387
Program revenue & Fees for Services	<u>5,720,817</u>
Total revenue	<u>\$27,638,204</u>

The primary sources of general revenue are the state revenue limit and local property tax revenue. The primary sources of program revenue are the state of California and the federal government, which fund many programs operated by the district, and fees collected for meals.

Table 3
Expenditures - Governmental Activities

	<u>2002-03</u>
Classroom Instruction	\$17,958,229
Instructional Related Services	2,951,143
Pupil Services	1,511,787
General Administration	1,885,940
Plant Services	2,208,263
Ancillary/Community Services	386,237
Interest on long-term debt	1,684,732
Other Outgo and Unallocated Depreciation	<u>60,916</u>
Total Expenditures	<u>\$28,447,247</u>

THE GENERAL FUND OPERATING BUDGET

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

During the course of the 2002-03 fiscal year, the district revised its general fund budget at First Interim, Second Interim and Third Interim to better reflect new grants and awards, and to portray the most current state and federal budget projections, as that information became available. Most of the revisions were not significant in terms of the overall budget with the exception of the mid-year cuts that were imposed by the state. Budget revisions are presented to the Governing Board for review and approval at regularly scheduled Board meetings.

CAPITAL ASSETS

At the end of the 2002-03 fiscal year the district had \$48,682,732 in land, buildings, site improvements, capital equipment and work in progress. Depreciation totaling \$6,282,060 was charged against the value of those assets for net capital assets of \$42,400,672.

CURRENT FINANCIAL RELATED ACTIVITIES

Albany Unified School District found it necessary to make major cuts in fiscal year 2002-03 in order to meet the State's requirement of a 1.5% reserve for economic uncertainties. At June 30, 2003, Albany Unified exceeded the 1.5% reserve requirement and ended with an excess of the usual 3.0% reserve. Each year the district takes a very careful look at revenue and expenditure projections on a multi-year basis, and adjusts its budget accordingly, to maintain an acceptable and safe reserve balance. As the preceding information shows, assets are substantial and the amount of debt paid from general revenues is a very small percentage of the overall budget. However, the financial future is full of challenges due to the district's dependence on the state of California for the bulk of its general operating revenue. The state of California's economy has left the 2003-04 and 2004-05 funding for education in question.

CONTACTING THE DISTRICT'S FINANCIAL MANAGERS

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret Romero, Assistant Superintendent of Business Services at Albany Unified School District, 904 Talbot Avenue, Albany, CA 94706 or e-mail to mromero@albany.k12.ca.us.

Basic Financial Statements

ALBANY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

EXHIBIT A-1

EXHIBIT A-2

	<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
ASSETS:		
Cash in County Treasury	\$ 5,589,773	
Cash on Hand and in Banks	81,877	
Cash in Revolving Fund	12,000	
Cash with a Fiscal Agent/Trustee	3,000,000	
Investments	47,744	
Accounts Receivable	1,498,793	
Stores Inventories	19,004	
Other Current Assets	11,784	
Capital Assets:		
Land	4,394,935	
Improvement of Sites	1,378,098	
Buildings	37,570,499	
Equipment	5,303,535	
Work in Progress	35,667	
Less Accumulated Depreciation	<u>(6,282,060)</u>	
Total Assets	<u>52,641,647</u>	
LIABILITIES:		
Accounts Payable	3,746,511	
Deferred Revenues	125,117	
Current Loans	3,000,000	
Noncurrent Liabilities:		
Due Within One Year	1,002,348	
Due in More Than One Year	<u>23,535,000</u>	
Total Liabilities	<u>31,408,976</u>	
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	17,863,324	
Restricted For:		
Debt Service	1,651,589	
Capital Projects	629,688	
Educational Programs	335,077	
Unrestricted	753,013	
Total Net Assets	<u>\$ 21,232,671</u>	
		\$ (13,880,207)
		(2,457,599)
		(720,760)
		(1,457,543)
		(2,162,161)
		(188,378)
		(125,343)
		(1,684,732)
		(7,775)
		(43,932)
		<u>(22,726,430)</u>
		<u>(22,726,430)</u>
		10,728,885
		9,210,848
		271,919
		<u>1,705,735</u>
		<u>21,917,387</u>
		(809,043)
		<u>22,041,714</u>
		<u>\$ 21,232,671</u>

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2003

EXHIBIT A-3

	General Fund	Bond Interest & Redemption Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 2,466,708	\$ 1,640,350	\$ 1,482,737	\$ 5,589,773
Cash on Hand and in Banks	27,277	-	34,600	61,877
Cash in Revolving Fund	10,000	-	2,000	12,000
Cash with a Fiscal Agent/Trustee	3,000,000	-	-	3,000,000
Investments	7,427	-	40,317	47,744
Accounts Receivable	1,388,096	8,323	127,374	1,498,793
Due from Other Funds	693,004	-	569,657	1,262,661
Stores Inventories	-	-	19,004	19,004
Prepaid Expenditures	2,374	-	-	2,374
Total Assets	\$ 7,572,884	\$ 1,648,653	\$ 2,276,689	\$ 11,494,226
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 3,030,548	\$ -	\$ 167,373	\$ 3,197,921
Due to Other Funds	450,892	-	811,769	1,262,661
Current Loans	3,000,000	-	-	3,000,000
Deferred Revenue	107,210	-	17,907	125,117
Total Liabilities	6,588,650	-	887,049	7,575,699
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	10,000	-	2,000	12,000
Reserve for Stores Inventories	-	-	19,004	19,004
Reserve for Prepaid Items	2,373	-	-	2,373
Reserve for Legally Restricted Balance	313,562	-	-	313,562
Designated Fund Balances:				
Designated for Economic Uncertainties	331,951	-	-	331,951
Unreserved	326,348	1,645,653	-	1,972,001
Unreserved, reported in nonmajor:				
Special Revenue Funds	-	-	448,510	448,510
Debt Service Funds	-	-	5,938	5,938
Capital Projects Funds	-	-	815,190	815,190
Total Fund Balance	984,234	1,645,653	1,268,640	3,918,527
Total Liabilities and Fund Balances	\$ 7,572,884	\$ 1,645,653	\$ 2,275,889	\$ 11,494,226

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET,
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

EXHIBIT A-4

Total fund balances - governmental funds balance sheet	\$ 3,918,527
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation	42,400,672
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in the prepaid expense on the statement of net assets are	9,410
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was	(558,590)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of	(24,637,348)
Net assets of governmental activities - statement of net assets	\$ 21,232,671

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

EXHIBIT A-5

	General Fund	Bond Interest & Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 7,815,377	\$ -	\$ 420,946	\$ 8,236,323
Local Sources	7,091,863	-	-	7,091,863
Federal Revenue	705,346	-	196,531	901,877
Other State Revenue	2,234,229	34,712	837,614	3,206,555
Other Local Revenue	4,625,059	2,032,052	1,571,330	8,228,441
Total Revenues	22,471,874	2,066,764	3,128,421	27,665,059
Expenditures:				
Instruction	15,139,687	-	1,887,164	17,006,851
Instruction - Related Services	2,296,026	-	415,081	2,711,107
Pupil Services	740,117	-	724,513	1,464,630
Ancillary Services	102,511	-	-	102,511
Community Services	114,412	-	16,710	131,122
General Administration	1,655,190	-	127,816	1,683,006
Plant Services	2,026,947	-	245,208	2,272,153
Other Outgo	16,984	-	-	16,984
Debt Service:				
Principal	-	880,000	58,016	1,038,016
Interest	-	1,137,390	6,197	1,143,587
Total Expenditures	21,991,874	2,117,390	3,460,703	27,569,967
Excess (Deficiency) of Revenues Over (Under) Expenditures	480,000	(50,626)	(334,282)	95,092
Other Financing Sources (Uses):				
Operating Transfers In	-	-	331,900	331,900
Operating Transfers Out	(138,175)	-	(193,725)	(331,900)
Net Change In Fund Balance	341,825	(50,626)	(196,107)	95,092
Fund Balance, July 1	842,409	1,698,279	1,484,747	3,823,435
Fund Balance, June 30	\$ 984,234	\$ 1,645,653	\$ 1,288,640	\$ 3,918,527

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

EXHIBIT A-6

Net change in fund balances - total governmental funds		\$ 95,092
Amounts reported for governmental activities in the statement of activities are different because:		
Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	55,088	
Depreciation expense	(1,438,648)	
Net		(1,383,561)
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were		1,038,016
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was		(658,590)
Change in net assets of governmental activities:		\$ 809,043

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private-Purpose Trust Fund	Agency Fund
	Erna C. Seeger Scholarship Trust	Student Body Fund
ASSETS:		
Cash on Hand and in Banks	\$ -	\$ 232,357
Cash with a Fiscal Agent/Trustee	22,889	-
Total Assets	<u>\$ 22,889</u>	<u>\$ 232,357</u>
LIABILITIES:		
Due to Student Groups	-	232,357
Total Liabilities	<u>-</u>	<u>232,357</u>
NET ASSETS:		
Held in Trust	22,889	-
Total Net Assets	<u>\$ 22,889</u>	<u>\$ -</u>

EXHIBIT A-7

ALBANY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2003

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 901
Total Additions	<u>901</u>
Deductions:	
Scholarship Awards	1,500
Total Deductions	<u>1,500</u>
Change in Net Assets	(599)
Net Assets-Beginning of the Year	23,488
Net Assets-End of the Year	<u>\$ 22,889</u>

EXHIBIT A-8

The accompanying notes are an integral part of this statement.

The accompanying notes are an integral part of this statement.

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

A. Summary of Significant Accounting Policies

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

For the fiscal period ended June 30, 2003, the District implemented the new reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial reporting model has been implemented.

1. Reporting Entity

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

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

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The District reports the following major governmental funds:

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

Bond Interest and Redemption Fund. This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

In addition, the District reports the following fund types:

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

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

Capital Projects Funds. These funds are used to account for the acquisition and/or construction of all major governmental capital assets.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

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

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

b. Measurement Focus, Basis of Accounting

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

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

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

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

3. Encumbrances

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

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

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

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53646 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

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

b. Stores Inventories and Prepaid Expenditures

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

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

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

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	60
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

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

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

e. Compensated Absences

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

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

f. Deferred Revenue

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

g. Interfund Activity

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

h. Property Taxes

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

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

I. Fund Balance Reserves and Designations

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

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

J. Use of Estimates

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

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

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

Fund Name	Deficit Amount
Child Development	\$ 80,121

C. Excess of Expenditures Over Appropriations

As of June 30, 2003, expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
General Fund:	
Pupil services	\$ 101,164
Ancillary services	102,511
Community services	114,412
General administration	228,837
Plant services	173,335

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

D. Cash and Investments

Cash In County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury as part of the common investment pool (\$5,689,773 as of June 30, 2003). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$5,689,773. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$294,234 as of June 30, 2003) and in the revolving fund (\$12,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments:

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. These custodial risk categories are as follows:

Category 1 - Investments that are insured, registered or held by the District or by its agent in the District's name.

Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the District's name.

The District's investments at June 30, 2003 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are categorized by the custodial risk categories described above.

Investment	Category			Reported Amount	Fair Value
	1	2	3		
Guaranteed investment contracts	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 3,000,000
LAIF	-	47,744	-	47,744	47,744
GNMA government securities	-	3,638	-	3,638	3,638
Merrill Lynch cash	-	19,251	-	19,251	19,251
Total Investments	\$ -	\$ 3,070,633	\$ -	\$ 3,070,633	\$ 3,070,633

Investment Accounting Policy

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

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

E. Capital Assets

Capital asset activity for the period ended June 30, 2003, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,394,935	\$ -	\$ -	\$ 4,394,935
Work in progress	-	35,667	-	35,667
Total capital assets not being depreciated	<u>4,394,935</u>	<u>35,667</u>	<u>-</u>	<u>4,430,602</u>
<i>Capital assets being depreciated:</i>				
Improvements	1,378,096	-	-	1,378,096
Buildings	37,555,491	14,008	-	37,570,499
Equipment	5,298,122	5,413	-	5,303,635
Total capital assets being depreciated	<u>44,232,709</u>	<u>19,421</u>	<u>-</u>	<u>44,252,130</u>
Less accumulated depreciation for:				
Improvements	(268,562)	(81,253)	-	(329,815)
Buildings	(4,051,319)	(1,107,490)	-	(5,158,809)
Equipment	(523,530)	(269,806)	-	(793,436)
Total accumulated depreciation	<u>(4,843,411)</u>	<u>(1,458,649)</u>	<u>-</u>	<u>(6,282,060)</u>
Total capital assets being depreciated, net	<u>39,389,298</u>	<u>(1,419,228)</u>	<u>-</u>	<u>37,970,070</u>
Governmental activities capital assets, net	<u>\$ 43,784,233</u>	<u>\$ (1,383,561)</u>	<u>\$ -</u>	<u>\$ 42,400,672</u>

Depreciation was charged to functions as follows:

Instruction	\$ 951,379
Instruction-Related Services	240,036
Pupil Services	47,156
Ancillary Services	142,388
Community Services	10,219
General Administration	2,934
Plant Services	607
Unallocated	43,932
	<u>\$ 1,438,649</u>

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balance due to and due from other funds at June 30, 2003, consisted of the following:

Due To Fund	Due From Fund	Amount
Adult Education Fund	General Fund	\$ 24,344
Child Development Fund	General Fund	2,264
Cafeteria Fund	General Fund	148,200
Deferred Maintenance Fund	General Fund	138,439
Building Fund	General Fund	142,655
Building Fund	Building Fund	98,023
Capital Facilities Fund	State School Building Fund	19,207
Capital Facilities Fund	Building Fund	1,535
General Fund	Building Fund	25,847
General Fund	Adult Education Fund	96,039
General Fund	Child Development Fund	571,118
	Total	<u>\$ 1,262,661</u>

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

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2003, consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Cafeteria Fund	\$ 138,175
Building Fund	Deferred Maintenance Fund	193,725
	Total	<u>\$ 331,900</u>

G. Short-Term Debt Activity

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

Description	Beginning Balance	Issued	Redeemed	Ending Balance
Tax revenue anticipation notes	\$ 2,500,000	\$ 3,000,000	\$ 2,500,000	\$ 3,000,000

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended June 30, 2003, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 25,285,000	\$ -	\$ 980,000	\$ 24,315,000	870,000
Capital leases	119,501	-	58,016	61,485	61,485
Early retirement plans	112,781	118,500	70,418	160,863	70,863
Total governmental activities	\$ 25,517,282	\$ 118,500	\$ 1,108,424	\$ 24,537,348	\$ 1,002,348

*** Other long-term liabilities**

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2003, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2004	\$ 1,002,348	\$ 1,102,577	\$ 2,104,925
2005	827,600	1,061,370	1,988,970
2006	972,600	1,025,024	1,997,624
2007	1,017,500	990,003	2,007,503
2008	1,052,500	951,864	2,004,364
2009-2013	5,910,000	4,070,531	9,980,531
2014-2018	7,425,000	2,575,025	10,000,025
2019-2023	5,215,000	869,018	6,084,018
2024-2028	1,015,000	85,663	1,100,663
Totals	\$ 24,537,348	\$ 12,731,075	\$ 37,268,423

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2003, as follows:

Year Ending June 30:	
2004	\$ 64,213
Less Amount Representing Interest	(2,728)
Net Present Value of Minimum Lease Payments	\$ 61,485

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

I. Joint Ventures (Joint Powers Agreements)

The District participates in two joint powers agreements (JPA) entities, the Alameda County Schools Insurance Group, and the Schools Excess Liability Fund public risk pool. The relationship between the District and the JPA's are such that the JPA's are not a component unit of the District.

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

Combined condensed audited financial information of the JPA's for the year ended June 30, 2002 is as follows:

Total Assets	\$ 19,824,274
Total Liabilities	14,558,688
Total Retained Earnings	5,265,586
Total Revenues	62,476,475
Total Expenses	63,809,307
Net Loss	1,333,832

J. Employee Retirement Systems

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

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2002-03 were 2.894% of payroll for the six months ending December 31, 2002, and 2.771% of payroll for the remaining six months ending June 30, 2003. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002, and 2001 were \$105,411, \$0 and \$0, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$3,415.

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

STRS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$1,022,549, \$1,007,047 and \$877,605, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$623,583.

K. Postemployment Benefits Other Than Pension Benefits

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

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate based on their per rata share FTE, depending on length of service and other factors. During the year ended June 30 2003, expenditures of \$154,280 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

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

State and Federal Allowances, Awards, and Grants

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

M. Restatement of Beginning Fund Balances

During the fiscal year 2002-03, errors were detected in prior year accounts receivable, accounts payable, and cash balances, resulting in the following adjustments to fund balances:

	General Fund	Deferred Maintenance Fund
Audited fund balance at June 30, 2002	\$ 421,819	\$ (677)
Restatement to correct errors	220,590	30,224
Beginning fund balance as restated	<u>\$ 642,409</u>	<u>\$ 29,547</u>

ALBANY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

N. Subsequent Events

The District issued \$3,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes mature on July 1, 2004 and yield 1.6984% 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 in three installments beginning January 2004, until 100% of principal and interest due is on account by May 31, 2004.

CERES UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Corinne Jones
President

Bill Berryhill
Clerk

Ben Harden
Member

Eileen Wyatt
Member

Yvette Lane
Member

Diane Sol
Member

Yvette Nunes
Member

DISTRICT ADMINISTRATION

Dr. Walt L. Hanline
Superintendent

Scott Siegel
Assistant Superintendent, Business Services

GENERAL AND FINANCIAL INFORMATION

General

The Ceres Unified School District (the "District") provides educational services to residents of Ceres, and surrounding areas in Stanislaus County. The District serves a population of approximately 43,061.

The District operates seven elementary schools (K-6), two middle schools (7-8), one high school (9-12), one alternative school (K-12), one continuation school, and one adult school.

The District's 2003/04 pupil-teacher ratio are 19.5:1 for grades K-3, 30:1 for grades 4-6, and 22.5:1 for grades 7-12.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. Walt L. Hanline has served in this capacity since 2001.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

CERES UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	9,045
2001/02 ^(b)	9,195
2002/03 ^(b)	9,221
2003/04 ^(c)	9,380
2004/05 ^(c)	9,410

^(a) Includes grades K-12, continuation education, home and hospital and special education; does not include adult education.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 22, 2004.

Labor Relations

The District employs 515 full-time equivalent certificated and 336 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

CERES UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	336	June 30, 2004
Ceres Unified Teachers Association	515	June 30, 2004

Source: The District.

Investment of District Funds

Substantially all of the District's operating funds are held by the Stanislaus County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX G – STANISLAUS COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 2.41% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION – State Funding of Education**" and "**– Average Daily Attendance**" herein.

CERES UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$30,058,523	50.44%
2001/02 ^(a)	31,989,705	46.68
2002/03 ^(b)	46,133,129	70.89
2003/04 ^(c)	45,526,636	67.46
2004/05 ^(c)	47,717,209	68.18

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 22, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no change in the number of full-time equivalent certificated and an increase of three full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 2.41% negotiated salary increase for certificated employees, and a 2.41% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 3.20% in the 2004/05 fiscal year.

CERES UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$47,286,136	81.60%
2001/02 ^(a)	53,994,576	78.11
2002/03 ^(b)	54,105,085	81.07
2003/04 ^(c)	53,689,308	78.21
2004/05 ^(c)	55,408,519	78.79

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 22, 2004.

Comparative Financial Statements

The following table summarizes the District's revenues, expenditures and fund balances from fiscal year 2000/01 through 2004/05:

CERES UNIFIED SCHOOL DISTRICT					
General Fund Revenues, Expenditures and Fund Balances					
	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources					
State Aid	\$30,058,523	\$31,989,705	\$33,094,773	\$32,227,513	\$34,397,364
Property Taxes	11,195,263	12,864,936	13,038,356	13,299,123	13,319,845
Federal Revenue	3,072,113	4,911,666	5,217,486	7,288,586	7,315,575
Other State Revenue	12,009,535	12,987,151	8,499,826	9,145,699	9,376,854
Other Local Revenue	1,459,885	1,845,119	5,222,356	5,527,411	5,576,837
Tuition and Transfers	1,797,922	3,936,854	0	0	0
Total Revenues	59,593,241	68,535,431	65,072,798	67,488,332	69,986,475
Expenditures					
Certificated Salaries	30,727,189	35,795,280	34,963,903	34,699,452	36,128,861
Classified Salaries	7,580,880	8,094,558	8,568,089	8,401,118	8,365,006
Employee Benefits	8,978,067	10,104,738	10,573,092	10,588,738	10,914,652
Books and Supplies	3,096,585	3,272,003	3,345,728	4,482,957	4,321,589
Services, Other Operating Expenses	3,364,334	7,403,548	7,735,581	7,625,043	7,718,889
Capital Outlay	1,605,700	3,366,678	140,881	947,846	934,853
Other Outgo	2,597,515	1,092,662	1,409,775	1,904,323	1,943,389
Total Expenditures	57,950,270	69,129,467	66,737,050	68,649,477	70,327,239
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	0	2,517,215	205,877	415,795	0
Interfund Transfers Out / Other Uses	(266,758)	(233,466)	(406,441)	(227,641)	(227,471)
Total Other Financing Sources/(Uses)	(266,758)	2,283,749	(200,564)	188,154	(227,471)
Excess of Revenues Over (Under) Expenditures	1,376,213	1,689,713	(1,864,816)	(972,991)	(568,235)
Beginning Fund Balance	4,110,776	5,486,989	7,176,702	5,311,886	4,315,895
Prior Year Adjustments	0	0	0	(23,000)	0
Ending Fund Balance	\$ 5,486,989	\$ 7,176,702	\$ 5,311,886	\$ 4,315,895	\$ 3,747,660

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Second Interim Report adopted on March 22, 2004.

District Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On June 30, 2003, the District issued \$6,695,00 in tax and revenue anticipation notes due July 1, 2004. The notes are general obligations of the District secured and payable from general fund revenues received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "**CERES UNIFIED SCHOOL DISTRICT – Excerpts from Audited Financial Statements, June 30, 2003.**"

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.35 times the principal and interest due on the Notes at maturity. See "**THE NOTES – Security and Sources of Payment**" herein.

CERES UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 2,720,742
Projected 2004/05 Cash Receipts (Including Note Proceeds)	75,322,800
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>70,437,052</u>
Balance	\$ 7,606,490
Note Repayment	\$ 5,623,345
NOTE COVERAGE RATIO	1.35 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES — Other District Funds" herein.

CERES UNIFIED SCHOOL DISTRICT Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance^(a)</u>	June 30, 2004, <u>Estimated Balance^(b)</u>	June 30, 2005, <u>Estimated Balance^(c)</u>
Special Revenue Funds			
Adult Education	\$ 77,101	\$ 77,101	\$ 77,101
Cafeteria	530,493	530,493	530,493
Child Development	37,791	37,791	37,791
Deferred Maintenance	977,486	977,486	500,000
Subtotal for Special Revenue Funds	1,622,871	1,622,871	1,145,385
Capital Project Funds			
Building	20,800,033	20,800,033	2,000,000
County School Facilities	24,678,520	24,678,520	15,000,000
Subtotal for Capital Project Funds	45,478,553	45,478,553	17,000,000
Total Alternate Liquidity	\$47,101,424	\$47,101,424	\$18,145,385

(a) Unaudited Financial Statement.

(b) Second Interim Report adopted on March 22, 2004.

(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through March 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

**District: Ceres Unified School District
2004 Tax and Revenue Anticipation Notes**

**EXHIBIT I
2003/04 ACTUAL CASH FLOW**

(Actuals through March 2004, Projected April through June 2004)

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	707,173	10,939,615	9,858,560	8,888,715	6,547,660	4,452,905	9,445,464	5,920,913	5,476,816	5,943,165	4,773,886	4,108,720	707,173
Receipts													
Revenue Limit	1,960,114	3,667,882	2,500,523	2,500,523	2,504,618	9,357,749	3,037,977	4,770,049	2,416,629	5,006,727	4,892,589	683,671	43,299,051
Other Receipts	5,078,797	890,158	1,406,276	1,365,768	914,894	1,604,195	2,503,400	353,934	3,687,348	2,062,355	1,991,092	3,122,566	24,980,783
Note Proceeds	6,731,487	0	0	0	0	0	0	0	0	0	0	0	6,731,487
Total Receipts	13,770,398	4,558,040	3,906,799	3,866,291	3,419,512	10,961,944	5,541,377	5,123,983	6,103,977	7,069,082	6,883,681	3,806,237	75,011,321
Disbursements													
Salaries and Benefits	2,759,057	4,591,162	4,294,249	4,428,489	4,524,433	4,505,771	4,318,115	4,354,678	4,386,420	4,400,300	3,733,865	3,696,365	49,992,904
Other Disbursements	778,899	1,047,933	582,395	1,778,857	989,834	1,463,614	2,069,813	1,213,402	1,251,208	1,160,061	2,375,836	1,497,850	16,209,702
Note Payment Pledge	0	0	0	0	0	0	2,678,000	0	0	2,678,000	1,439,146	0	6,795,146
Total Disbursements	3,537,956	5,639,095	4,876,644	6,207,346	5,514,267	5,969,385	9,065,928	5,568,080	5,637,628	8,238,361	7,548,847	5,194,215	72,997,752
Net Increase/Decrease	10,232,442	(1,081,055)	(969,845)	(2,341,055)	(2,094,755)	4,992,559	(3,524,551)	(444,097)	466,349	(1,169,279)	(665,166)	(1,387,978)	2,013,569
Ending Cash	10,939,615	9,858,560	8,888,715	6,547,660	4,452,905	9,445,464	5,920,913	5,476,816	5,943,165	4,773,886	4,108,720	2,720,742	2,720,742

**EXHIBIT II
2004/05 PROJECTED CASHFLOW
GENERAL FUND**

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	2,720,742	10,842,600	9,410,277	8,438,595	5,619,806	3,275,604	7,752,894	4,818,892	4,293,784	4,822,011	3,871,972	3,429,134	2,720,742
Receipts													
Revenue Limit: Property Tax	1,823	0	0	0	4,100	6,867,910	91,606	399,957	231,632	2,825,766	2,466,502	482,083	13,371,379
Revenue Limit: State Aid	2,090,144	3,914,837	2,668,882	2,668,882	2,668,882	2,668,882	3,144,900	4,664,990	2,332,495	2,332,495	2,593,529	215,961	31,964,879
Other Receipts	4,625,855	801,304	1,408,143	1,287,918	907,757	1,590,727	2,533,456	352,154	3,737,948	2,070,805	1,973,320	3,165,020	24,454,407
Note Proceeds	5,532,135	0	0	0	0	0	0	0	0	0	0	0	5,532,135
Total Receipts	12,249,957	4,716,141	4,077,025	3,956,800	3,580,739	11,127,519	5,769,962	5,417,101	6,302,075	7,229,066	7,033,351	3,863,064	75,322,800
Disbursements													
Salaries and Benefits	2,847,406	4,738,178	4,431,757	4,570,296	4,669,312	4,650,052	4,456,387	4,494,121	4,526,880	4,541,204	3,853,429	3,814,728	51,593,750
Other Disbursements	1,280,693	1,410,286	616,950	2,205,293	1,255,629	2,000,177	2,063,577	1,448,088	1,246,968	1,453,901	2,367,415	1,494,325	18,843,302
Note Payment Pledge	0	0	0	0	0	0	2,184,000	0	0	2,184,000	1,255,345	0	5,623,345
Total Disbursements	4,128,099	6,148,464	5,048,707	6,775,589	5,924,941	6,650,229	8,703,964	5,942,209	5,773,848	8,179,105	7,476,189	5,309,053	76,060,397
Net Increase/Decrease	8,121,858	(1,432,323)	(971,682)	(2,818,789)	(2,344,202)	4,477,290	(2,934,002)	(525,108)	528,227	(950,039)	(442,838)	(1,445,989)	(737,597)
Ending Cash	10,842,600	9,410,277	8,438,595	5,619,806	3,275,604	7,752,894	4,818,892	4,293,784	4,822,011	3,871,972	3,429,134	1,983,145	1,983,145

CERES UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Education
Ceres Unified School District
Ceres, California

We have audited the accompanying financial statements of the governmental activities, component unit, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, component unit, each major fund, and the aggregate remaining fund information of the Ceres Unified School District, as of June 30, 2003, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.B to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on page 46 are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP
Fresno, California
November 7, 2003

Ceres Unified School District

ADMINISTRATION
WALT L. HANLINE, Ed.D.
District Superintendent

BUSINESS SERVICES DIVISION
SCOTT SIEGEL, Assistant Superintendent

This section of Ceres Unified School District's (2002-2003) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. 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 Ceres Unified 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. (Note that for the fiscal year presented, only governmental activities were reported.) These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

Governmental and the *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Ceres Unified School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District had net assets of \$63.0 million on June 30, 2003. This represents an increase of \$28.1 million from June 30, 2002.

The primary source of the increase was due to grants received from the State for new school construction and modernizations of existing schools.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

The District saw its General Fund balance decrease from \$7.4 million to \$5.3 million during the fiscal year. This decrease was primarily due to State budget cuts and a shortfall in ADA projections.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, we 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 twelve students, adult education students, the operation of child development activities, 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, finance these activities.

Business-type activities - The District charges fees to help it cover the costs of certain services it provides. The current Statement of Net Assets does not include any business-type 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.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retirees 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 \$63.0 million for the fiscal year ended June 30, 2003. Of this amount, \$4.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table 1

(Amounts in millions)	Governmental Activities
Current and other assets	\$ 61.7
Capital assets	38.4
Total Assets	100.1
Current liabilities	7.9
Long-term debt	29.2
Total Liabilities	37.1
Net assets	
Invested in capital assets, net of related debt	9.5
Restricted	49.1
Unrestricted	4.4
Total Net Assets	\$ 63.0

The \$4.4 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 off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$4.4 million left. We will need to closely monitor our expenditures in the future and adhere strictly to the budget to increase this \$4.4 million.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table 2

(Amounts in millions)	Governmental Activities
Revenues	
Program revenues	
Charges for services	\$ 2.0
Operating grants and contributions	18.2
Capital grants and contributions	27.9
General revenues:	
State revenue limit sources	33.4
Property taxes	14.0
Other general revenues	6.0
Total Revenues	101.5
Expenses	
Instruction related	53.7
Student support services	6.6
Administration	3.6
Maintenance and operations	5.8
Other	3.8
Total Expenses	73.4
Change in Net Assets	\$ 28.1

Governmental Activities

As reported in the Statement of Activities on page 14, the cost of all of our governmental activities this year was \$73.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.0 million because the cost was paid by those who benefited from the programs (\$2.0 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$46.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$33.4 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's ten largest functions - instruction, instruction related activities, plant services, student transportation services, other pupil services, general administration, ancillary services and long term debt, as well as each program's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table 3

(Dollar amounts in millions)	Total Cost of Services	Net Cost of Services
Instruction	\$ 45.6	\$ 6.9
Instruction-related activities	8.1	6.0
Home-to-school transportation	1.2	0.2
Other pupil services	5.4	2.0
General administration	3.6	2.3
Maintenance and operations	5.7	5.6
Ancillary services	0.2	0.2
Interest on long-term debt	1.3	1.3
Other outgo	1.5	0.2
Other	0.8	0.8
Totals	\$ 73.4	\$ 25.4

The original District budget projected a decrease in net assets of approximately \$2.5 million. Although revenues were \$2.5 million less than expected, expenditures were \$2.4 million less than originally projected, lessening the impact of the decrease in revenue. Approximately \$2.9 million of the decrease in revenue is from State sources as the result of mid-year budget reductions at the State level and an over projection of student enrollment at the local level.

Salaries and fringe benefit expenditures were \$0.3 million less than expected due to personnel reductions during the year. In addition, overall expenditures were reduced by \$2.4 million as the District restricted spending in the face of an unprecedented State budget crisis.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$53.8 million, which is an increase of \$25.1 million from last year (Table 4).

Table 4

(Dollar amounts in millions)	Fund Balance June 30, 2003
General	\$ 5.3
Building	20.8
County Schools Facilities	24.7
Non-Major Governmental Funds	3.0
Totals	\$ 53.8

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

The primary reasons for these increases/decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased \$1.8 million to \$5.3 million. This decrease is due to:
 - 1. An over-projection of student enrollment
 - 2. Decreased State revenue
 - 3. Increase in special education unfunded mandates
 - 4. Increase in worker's compensation costs
- b. Our building funds increased dramatically from the prior year showing a net increase of approximately \$45.5 million. This increase is due to:
 - 1. The receipt of State grants for new school construction and modernizations
 - 2. The sale of bonds to finance the construction of Central Valley High School

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on January 16, 2003. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 46).

- > Significant revenue revisions made to the 2002/03 Budget were due to mid-year budget cuts enacted by the State and a downward correction to student enrollment.
- > Budgeted expenditures decreased by \$2.4 million due to District budget tightening in response to the factors listed above.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$38.4 million in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of just under \$8.4 million, or 28 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities
Land and construction in process	\$ 15.1
Buildings and improvements	21.6
Equipment	1.7
Totals	\$ 38.4

This years additions of \$8.4 million included construction in progress at Central Valley High School and the acquisition of land for new elementary schools.

CERES UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Long-Term Debt

At the end of this year, the District had \$29.2 million in outstanding debt versus \$23.7 million last year, an increase of 23 percent. This debt consisted of:

Table 6

(Amounts in millions)	Governmental Activities
General obligation bonds (Financed with property taxes)	\$ 25.0
Certificates of participation	2.9
Capitalized lease obligations	0.4
Other	0.8
Totals	\$ 29.2

The District's general obligation bond rating continues to be "A." The State limits the amount of general obligation debt that District's can issue to 5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$25.0 million is significantly below this statutorily - imposed limit.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

The District is in the early phases of a significant building program which includes:

- 1) Construction of a second comprehensive high school
- 2) Purchase of land for five new elementary schools
- 3) Renovation and reconstruction at the existing comprehensive high school
- 4) Completion of a portable school to house the District's Charter School
- 5) Modernization of one of the District's junior high schools

CERES UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003/2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income would decrease by 1.2% due to the State deficiating the revenue limit. In addition, a zero COLA was assumed..
2. Interest earnings will decrease by more than 50 percent due to an anticipated reduction in market interest rates.
3. Developer fee collections are based conservatively on approximating the new housing units to be constructed and studying past trends.
4. Federal income will hold steady.
5. State income will hold steady other than the deficiating and elimination of specific programs.
6. Charges to other funds (the indirect rate) will decrease by 0.33 percent as a result of internal accounting changes.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	3043
Grades four through six	30:1	2215
Grades seven through eight	26:1	1546
Grades nine through twelve	25:1	2307
Charter School		200
Special Education		300
Continuation/Alternative Ed		425

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The new items specifically addressed in the budget are:

1. A reduction in support staff from the levels of previous years.
2. An increase in the rate charged by the County for special education students.
3. An increase in the worker's compensation rate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at the Ceres Unified School District, P.O. Box 307, Ceres, California, 95307, or e-mail at ssiegel@ceres.k12.ca.us.

CERES UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Deposits and investments	\$ 51,873,050
Receivables	9,670,912
Prepaid expenses	49,609
Stores inventories	98,818
Capital assets	
Land and construction in process	15,122,086
Other capital assets	37,234,970
Less: Accumulated depreciation	(13,951,051)
Total capital assets	38,406,005
Total Assets	<u>100,098,394</u>
Liabilities	
Accounts payable	7,008,859
Deferred revenue	861,974
Long-term liabilities	
Current portion of long-term obligations	659,800
Noncurrent portion of long-term obligations	28,572,664
Total long-term liabilities	29,232,464
Total Liabilities	<u>37,103,297</u>
Net Assets	
Invested in capital assets, net of related debt	9,500,069
Restricted for:	
Debt service	790,235
Capital projects	46,068,093
Educational programs	759,196
Other activities	1,512,928
Unrestricted	4,364,576
Total Net Assets	<u>\$ 62,995,097</u>

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

CERES UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 45,626,698	\$ 1,037,120	\$ 9,861,092	\$ 27,853,268
Instruction-related activities:				
Supervision of instruction	2,126,428	77,831	1,155,818	-
Instructional library, media and technology	926,560	-	198,688	-
School site administration	5,000,422	17,493	633,239	-
Pupil services:				
Home-to-school transportation	1,210,957	142,175	904,251	-
Food services	2,959,390	350,423	2,261,189	-
All other pupil services	2,406,197	94,072	703,628	-
General administration:				
Data processing	158,816	-	-	-
All other general administration	3,430,386	125,560	1,180,276	-
Plant services	5,769,191	7,078	160,978	-
Ancillary services	181,979	-	-	-
Interest on long-term debt	1,346,033	-	-	-
Other outgo	1,479,791	175,250	1,127,766	-
Depreciation (unallocated)	808,409	-	-	-
Total Governmental-Type Activities	<u>\$ 73,431,257</u>	<u>\$ 2,027,002</u>	<u>\$ 18,186,925</u>	<u>\$ 27,853,268</u>
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
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	
\$	(6,875,218)
	(892,779)
	(727,872)
	(4,349,690)
	(164,531)
	(347,778)
	(1,608,497)
	(158,816)
	(2,124,550)
	(5,601,135)
	(181,979)
	(1,346,033)
	(176,775)
	(808,409)
	(25,364,062)
	13,038,357
	998,829
	292,067
	39,081,130
	53,410,383
	28,046,321
	34,948,776
\$	62,995,097

CERES UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003**

	General Fund	Building Funds	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 4,844,257	\$ 21,968,641	\$ 22,249,520
Receivables	6,466,174	-	2,522,058
Due from other funds	43,707	-	38,844
Prepaid expenses	10,014	-	-
Stores inventories	-	-	-
Total Assets	\$ 11,364,152	\$ 21,968,641	\$ 24,810,422
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	5,210,245	1,168,609	131,901
Due to other funds	38,988	-	-
Deferred revenue	803,032	-	-
Total Liabilities	6,052,265	1,168,609	131,901
FUND BALANCES			
Reserved	792,210	-	-
Unreserved:			
Designated	1,877,630	-	-
Undesignated, reported in:			
General Fund	2,642,047	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	20,800,032	24,678,521
Total Fund Balance	5,311,887	20,800,032	24,678,521
Total Liabilities and Fund Balances	\$ 11,364,152	\$ 21,968,641	\$ 24,810,422

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

<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,810,632	\$ 51,873,050
682,680	9,670,912
38,988	121,539
-	10,014
98,818	98,818
<u>\$ 3,631,118</u>	<u>\$ 61,774,333</u>
498,104	7,008,859
82,551	121,539
58,942	861,974
<u>639,597</u>	<u>7,992,372</u>
98,818	891,028
-	1,877,630
-	2,642,047
1,512,928	1,512,928
790,235	790,235
589,540	46,068,093
<u>2,991,521</u>	<u>53,781,961</u>
<u>\$ 3,631,118</u>	<u>\$ 61,774,333</u>

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CERES UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance - Governmental Funds		\$ 53,781,961
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	\$ 52,357,056	
Accumulated depreciation is	<u>(13,951,051)</u>	
Total capital assets		38,406,005
 Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		 39,595
Long-term liabilities at year end consist of:		
General obligation bonds	24,999,806	
Certificates of participation	2,915,000	
Early retirement	46,536	
EPA loans	572,535	
Capital lease obligations	441,520	
Compensated absences	223,009	
In addition, the District issued "capital appreciation" general obligation bonds/certificates of participation. The accretion of interest on the general obligation bonds/certificates of participations to date is:	<u>34,058</u>	
Total long-term liabilities		(29,232,464)
Total Net Assets - Governmental Activities		<u>\$ 62,995,097</u>

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

CERES UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Revenue limit sources	\$ 46,133,130	\$ -	\$ -
Federal sources	5,217,486	-	-
Other state sources	8,499,826	-	27,767,072
Other local sources	5,222,358	553,036	67,447
Total Revenues	<u>65,072,800</u>	<u>553,036</u>	<u>27,834,519</u>
EXPENDITURES			
Current			
Instruction	44,602,406	-	-
Instruction-related activities:			
Supervision of instruction	1,982,366	-	-
Instructional library, media and technology	926,263	-	-
School site administration	4,810,793	-	-
Pupil Services:			
Home-to-school transportation	1,210,957	-	-
Food services	10,672	-	-
All other pupil services	2,382,989	-	-
General administration:			
Data processing	158,816	-	-
All other general administration	3,002,177	-	-
Plant services	5,760,155	-	-
Facility acquisition and construction	35,095	4,841,766	2,281,620
Ancillary services	181,979	-	-
Other outgo	1,480,086	-	-
Debt service			
Principal	131,578	-	-
Interest and other	60,719	-	-
Total Expenditures	<u>66,737,051</u>	<u>4,841,766</u>	<u>2,281,620</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,664,251)</u>	<u>(4,288,730)</u>	<u>25,552,899</u>
Other Financing Sources (Uses):			
Transfers in	205,877	1,505,752	157,933
Other sources	-	5,122,549	-
Transfers out	(406,441)	-	(1,505,752)
Net Financing Sources (Uses)	<u>(200,564)</u>	<u>6,628,301</u>	<u>(1,347,819)</u>
NET CHANGE IN FUND BALANCES	<u>(1,864,815)</u>	<u>2,339,571</u>	<u>24,205,080</u>
Fund Balance - Beginning	7,176,702	18,460,461	473,441
Fund Balance - Ending	<u>\$ 5,311,887</u>	<u>\$ 20,800,032</u>	<u>\$ 24,678,521</u>

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

CERES UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Non-Major Governmental Funds	Total Governmental Funds
\$ 299,672	\$ 46,432,802
2,250,655	7,468,141
1,023,177	37,290,075
4,443,719	10,286,560
<u>8,017,223</u>	<u>101,477,578</u>
1,028,000	45,630,406
144,062	2,126,428
297	926,560
189,629	5,000,422
-	1,210,957
3,009,302	3,019,974
23,208	2,406,197
-	158,816
433,817	3,435,994
101,220	5,861,375
1,865,806	9,024,287
-	181,979
-	1,480,086
2,569,491	2,701,069
744,893	805,612
<u>10,109,725</u>	<u>83,970,162</u>
<u>(2,092,502)</u>	<u>17,507,416</u>
689,130	2,558,692
2,500,525	7,623,074
(646,499)	(2,558,692)
<u>2,543,156</u>	<u>7,623,074</u>
450,654	25,130,490
2,540,867	28,651,471
<u>\$ 2,991,521</u>	<u>\$ 53,781,961</u>

Total Net Change in Fund Balances - Governmental Funds \$ 25,130,490
 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 statements of activities.

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

Depreciation expense	\$ (808,409)	
Capital outlays	<u>9,197,094</u>	8,388,685

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there are no special termination benefits. Vacation used was less than the amounts earned by \$10,723.

(10,723)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities:

Sale of general obligation bonds	(5,122,549)
Sale of certificates of participation	(3,105,000)

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:

Deferred amount on refunding	(39,595)
------------------------------	----------

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

Certificates of participation	2,545,000
Capital lease obligations	84,416
Other long-term debt	<u>175,597</u>

Change in Net Assets of Governmental Activities	<u>\$ 28,046,321</u>
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The accompanying notes are an integral part of these financial statements.

CERES UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 271,944
Total Assets	<u>\$ 271,944</u>
LIABILITIES	
Due to student groups	271,944
Total Liabilities	<u>\$ 271,944</u>

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

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Ceres Unified School District was unified on July 1, 1965, under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates seven elementary schools, two junior high schools, one high school, one continuation high school, and one alternative school.

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

B. State Deferred Appropriations

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the "Bill") was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California school districts. The Bill, among other things, shifted the appropriation for the payment of the June 2003 principal apportionment for the General and Adult Funds into the 2003-2004 fiscal year. The Bill allowed local educational agencies to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-2003 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-2004 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue, and available reserves of \$4,095,499.

C. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The Ceres Unified School District Financing Corporation's financial activity is presented in the financial statements as a Capital Projects Fund and a Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Charter School The District has approved a Charter for the Whitmore Charter School pursuant to Education Code Section 47605. The Whitmore Charter School is operated by the District, and its financial activities are presented in the Charter School special revenue fund.

Public Entity Risk Pools The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

Central Region Schools' Insurance Group
Schools Excess Liability Fund

D. Basis of Presentation - Fund Accounting

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

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

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

Other Non-Major Governmental Funds

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

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

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

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

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

Charter Schools Fund The Charter Schools Fund exists as an option to separately report the activity of charter schools.

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:

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category has one classification: agency funds.

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).

E. Basis of Accounting - Measurement Focus

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

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

The government-wide financial statement of activities presents a comparison between direct expenses for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental 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.

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. For the District, available means expected to be received within 60 days of fiscal year-end.

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
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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 and recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

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

F. Cash and Cash Equivalents

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

G. Investments

Investments held at June 30, 2003, 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.

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

H. Restricted Assets

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

I. Prepaid Expenditures

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

J. Stores Inventory

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

K. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. 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.

L. Interfund Balances

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

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

M. Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is reported in the General Long-term Debt Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

N. 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 funds.

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

O. Fund Balance Reserves and Designations

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

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

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

P. Net Assets

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

Q. Interfund Activity

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

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

R. 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.

S. 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.

T. 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.

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules -- Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

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

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

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$388,982 for governmental activities and \$271,944 held in fiduciary funds. The bank balances totaled \$549,683. Of the bank balances, \$340,653 was covered by Federal deposit insurance and \$209,030 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3). The remaining \$0 bank balance was covered by surety bond insurance in the District's name (Category 2).

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of the California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with county treasury and the State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and State treasurers for their respective pools.

The investments at June 30, 2003, are as follows:

	Reported Amount	Fair Value
Uncategorized		
Guaranteed investment contract	\$ 1,322,550	\$ 1,322,550
Deposits with county treasurer	50,131,825	50,382,484
Investment in state treasurer's pool	29,693	29,844
	<u>\$ 51,484,068</u>	<u>\$ 51,734,879</u>

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 651,313	\$ -	\$ 320,851	\$ 972,164
State Government				
Apportionment	3,341,812	-	110,682	3,452,494
Categorical aid	1,231,329	-	55,163	1,286,492
Other state	469,019	2,519,700	85,240	3,073,959
Local Government				
Interest	37,425	-	10	37,435
Other Local Sources	735,276	2,358	110,734	848,368
Total	<u>\$ 6,466,174</u>	<u>\$ 2,522,058</u>	<u>\$ 682,680</u>	<u>\$ 9,670,912</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Balance June 30, 2003
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 6,452,291	\$ 204,820	\$ 6,657,111
Construction in process	-	8,464,975	8,464,975
Total Capital Assets Not Being Depreciated	<u>6,452,291</u>	<u>8,669,795</u>	<u>15,122,086</u>
Capital Assets Being Depreciated			
Land improvements	3,202,605	34,038	3,236,643
Buildings and improvements	29,996,107	304,226	30,300,333
Furniture and equipment	3,508,959	189,035	3,697,994
Total Capital Assets Being Depreciated	<u>36,707,671</u>	<u>527,299</u>	<u>37,234,970</u>
Less Accumulated Depreciation			
Land improvements	2,393,382	93,102	2,486,484
Buildings and improvements	8,805,894	687,623	9,493,517
Furniture and equipment	1,943,366	27,684	1,971,050
Total Accumulated Depreciation	<u>13,142,642</u>	<u>808,409</u>	<u>13,951,051</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,017,320</u>	<u>\$ 8,388,685</u>	<u>\$ 38,406,005</u>

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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

Governmental Activities	
Total Depreciation Expenses Governmental Activities	<u>\$ 808,409</u>

NOTE 6 - INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 43,707	\$ 38,988
Charter School	38,988	43,707
County School Facilities	38,844	-
State School Building	-	38,844
Total	<u>\$ 121,539</u>	<u>\$ 121,539</u>

B. Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the State match.	\$ 340,958
The Capital Facilities Fund transferred to the County School Facilities Fund for applicable construction costs.	157,933
The Capital Facilities Fund transferred to the Cafeteria Fund for the cost of reimbursements.	117
The General Fund transferred to the Adult Education Fund for a temporary loan.	16,000
The Capital Facilities Fund transferred to the General Fund the capital improvement reserve for spending flexibility.	205,867
The Capital Facilities Fund transferred to the Debt Service Fund for payment of COPs obligation.	282,572
The General Fund transferred to the Cafeteria Fund to reimburse costs.	10,495
The County School Facilities Fund transferred to the Building fund to repay for land purchase.	1,505,752
The General Fund transferred to the Charter School for temporary loan.	38,988
The Charter School transferred to the General Fund to reimburse costs.	10
Total	<u>\$ 2,558,692</u>

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,159,835	\$ 1,168,609	\$ 131,901	\$ 385,702	\$ 2,846,047
Accrued payroll	2,740,410	-	112,402	-	2,852,812
TRANS	1,310,000	-	-	-	1,310,000
Total	<u>\$ 5,210,245</u>	<u>\$ 1,168,609</u>	<u>\$ 244,303</u>	<u>\$ 385,702</u>	<u>\$ 7,008,859</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 726,241	\$ -	\$ 726,241
State categorical aid	70,543	24,337	94,880
Other local	6,248	34,605	40,853
Total	<u>\$ 803,032</u>	<u>\$ 58,942</u>	<u>\$ 861,974</u>

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance			Balance		Due in
	July 1, 2002	Additions	Deductions	June 30, 2003	One Year	
General Obligation Bonds						
2001 - Series A	\$19,877,257	\$ 17,420	\$ -	\$19,894,677	\$ -	
2001 - Series B	-	5,139,187	-	5,139,187	-	
Certificates of Participation						
2001	2,355,000	3,105,000	2,545,000	2,915,000	230,000	
EPA Loan - Asbestos	646,017	-	73,482	572,535	73,482	
STRS Retirement	103,519	45,077	102,060	46,536	46,536	
Accumulated vacation - net	212,286	10,723	-	223,009	223,009	
Capital leases	525,936	-	84,416	441,520	86,773	
	<u>\$23,720,015</u>	<u>\$8,317,407</u>	<u>\$2,804,958</u>	<u>\$29,232,464</u>	<u>\$659,800</u>	

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for the Certificates of Participation are made by the COP Debt Service Fund. The accrued vacation will be paid by the fund for which the employee worked. All other debt service payments will be made by the General Fund.

B. Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Accreted Interest	Bonds	
				Outstanding July 1, 2002	Issued		Outstanding June 30, 2003	
5/2/2002	2/1/2027	3.0-6.75%	\$19,877,257	\$19,877,257	\$ -	\$17,420	\$19,894,677	
11/19/2002	8/1/2035	3.0-6.75%	5,122,549	-	5,122,549	16,638	5,139,187	
				<u>\$19,877,257</u>	<u>\$5,122,549</u>	<u>\$34,058</u>	<u>\$25,033,864</u>	

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Debt Service Requirements to Maturity

The 2001 - Series A Bonds mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ -	\$ 831,562	\$ 831,562
2005	285,000	827,287	1,112,287
2006	335,000	817,988	1,152,988
2007	385,000	805,262	1,190,262
2008	440,000	788,763	1,228,763
2009-2013	3,130,000	3,619,644	6,749,644
2014-2018	5,190,000	2,724,825	7,914,825
2019-2023	8,155,000	1,088,375	9,243,375
2024-2027	1,957,257	6,777,743	8,735,000
Subtotal	<u>19,877,257</u>	<u>18,281,449</u>	<u>38,158,706</u>
Accreted interest	17,420	(17,420)	-
Total	<u>\$ 19,894,677</u>	<u>\$ 18,264,029</u>	<u>\$ 38,158,706</u>

The 2001 - Series B Bonds mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2028-2032	\$ 2,977,971	\$ 11,622,029	\$ 14,600,000
2033-2037	2,144,578	11,445,422	13,590,000
Subtotal	<u>5,122,549</u>	<u>23,067,451</u>	<u>28,190,000</u>
Accreted interest	16,638	(16,638)	-
Total	<u>\$ 5,139,187</u>	<u>\$ 23,050,813</u>	<u>\$ 28,190,000</u>

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
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Total General Obligations Bonds outstanding:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ -	\$ 831,562	\$ 831,562
2005	285,000	827,287	1,112,287
2006	335,000	817,988	1,152,988
2007	385,000	805,262	1,190,262
2008	440,000	788,763	1,228,763
2009-2013	3,130,000	3,619,644	6,749,644
2014-2018	5,190,000	2,724,825	7,914,825
2019-2023	8,155,000	1,088,375	9,243,375
2024-2027	1,957,257	6,777,743	8,735,000
2028-2032	2,977,971	11,622,029	14,600,000
2033-2037	2,144,578	11,445,422	13,590,000
Subtotal	24,999,806	41,348,900	66,348,706
Accreted interest	34,058	(34,058)	-
Total	\$ 25,033,864	\$ 41,314,842	\$ 66,348,706

C. Certificates of Participation

On March 31, 2001, the Ceres Unified School District Financing Corporation issued certificates of participation in the amount of \$2,355,000 with interest rates ranging from 3.45 to 4.45 percent. At June 30, 2002, the principal balance outstanding was \$2,355,000. The Certificates were issued for a land acquisition for the new high school. The District refunded the debt on July 1, 2002, with a new Certificates of Participation issue of \$3,105,000. The \$2,355,000 on the 2001 debt was paid off. Interest rates on the 2002 Certificates of Participation range from 2.00 to 3.75 percent. At June 30, 2003, the principal balance outstanding was \$2,915,000. Interest is payable December 1 and June 1 beginning on December 1, 2002. Principal payments are due each June 1 beginning on June 1, 2003.

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

The certificates mature through 2011 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 230,000	\$ 83,196	\$ 313,196
2005	695,000	78,596	773,596
2006	895,000	62,090	957,090
2007	260,000	37,478	297,478
2008	270,000	29,678	299,678
2009-2011	565,000	31,454	596,454
Total	\$ 2,915,000	\$ 322,492	\$ 3,237,492

D. EPA Loans

The District has entered into a loan with the Environmental Protection Agency which is being repaid in equal annual installments of \$7,265. The District also has a loan for the removal of asbestos with the same agency with required annual payments of \$66,217. No interest cost is applicable to either loan. The Debt Service requirements are as follows:

Year Ending June 30,	Amount
2004	\$ 73,482
2005	73,482
2006	73,482
2007	73,482
2008	73,482
2009-2013	205,125
Total	\$ 572,535

E. STRS Retirement

The District has an early retirement program, whereby an annual payment is made for each participant of which there were ten at June 30, 2003, for a total liability of \$46,536.

F. Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$223,009.

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

G. Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$441,520 with corresponding accumulated depreciation of \$235,332 at June 30, 2003. The District's liability on lease agreements with options to purchase are summarized below:

	(9) Buses	Freezer	Preschool Portable	Total
Balance, July 1, 2002	\$ 398,747	\$ 49,914	\$ 77,275	\$ 525,936
Payments	58,096	16,661	9,659	84,416
Balance, June 30, 2003	\$ 340,651	\$ 33,253	\$ 67,616	\$ 441,520

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 106,295
2005	106,295
2006	89,738
2007	89,174
2008	89,174
2009-2013	19,318
Total	499,994
Less: Amount Representing Interest	58,474
Present Value of Minimum Lease Payments	\$ 441,520

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - FUND BALANCES

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

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds
Reserved				
Revolving cash	\$ 23,000	\$ -	\$ -	\$ -
Stores inventory	-	-	-	98,818
Prepaid expenditures	10,014	-	-	-
Restricted programs	759,196	-	-	-
Total Reserved	792,210	-	-	98,818
Unreserved				
Designated				
Other designation	1,877,630	-	-	-
Total Designated	1,877,630	-	-	-
Undesignated	2,642,047	20,800,032	24,678,521	2,892,703
Total Unreserved	4,519,677	20,800,032	24,678,521	2,892,703
Total	\$ 5,311,887	\$ 20,800,032	\$ 24,678,521	\$ 2,991,521

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age fifty-five with at least ten years of service. Currently, 54 employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$103,355 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$321,051. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining.

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 12 - RISK MANAGEMENT

A. 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 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.

B. Workers' Compensation

For fiscal year 2003, the District participated in the Central Region Schools' Insurance Group ("CRSIG"), an insurance purchasing pool. The intent of CRSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in 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 CRSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of CRSIG. Participation in CRSIG is limited to districts that can meet CRSIG selection criteria. The firm of Keenan & Associates provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

The District has contracted with the Central Region Schools' Insurance Group to provide employee medical and surgical benefits. CRSIG is a shared risk pool. 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.

NOTE 13 - 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).

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

A. STRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 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, 2003, 2002, and 2001, were \$2,943,423, \$2,953,111, and \$2,384,278, respectively, and equal 100 percent of the required contributions for each year.

B. PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$236,771, \$0, and \$0, respectively, and equal 100 percent of the required contributions for each year.

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

C. Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has obligations to STRS totaling \$46,536 for early retirement incentives granted to terminated employees.

D. 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 use Social Security as its alternative plan. 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 the pension plan.

E. 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 \$1,588,494 (4.475 percent of salaries subject to STRS) and contributions to PERS in the amount of \$9,317 (0.092 percent of salaries subject to PERS), for the year ended June 30, 2003. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

CERES UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

C. Operating Leases

The District has entered into various operating leases for equipment with no 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.

D. Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
CVHS Site Demo/Pipeline	\$ 20,647	11/30/03
Whitmore Charter School	96,831	11/30/03
Ceres High Quad Project	2,312,602	02/01/04
Site Work/Utility Hookup at VP and Endeavor	25,000	11/30/03
Central Valley High School	26,030,174	05/01/05
	<u>\$ 28,485,254</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Central Region Schools' Insurance Group and the Schools Excess Liability Fund public entity risk pools. The District pays an annual premium to each entity for its health, and property and liability excess coverage. The relationship between the District and the pools is such that the pools are not component units of the District for financial reporting purposes.

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

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

A. <u>Entity</u>	Central Region Schools' Insurance Group	Schools Excess Liability Fund
B. <u>Purpose</u>	Arranges for and provides workers' health and welfare, workers' compensation and property liability coverage.	Arranges for excess liability insurance.
C. <u>Participants</u>	Other school districts.	Other school districts.
D. <u>Governing Board</u>	One representative from each member district.	One Representative from each member district.
E. <u>Condensed Audited Financial Information Follows</u>		
	June 30, 2002*	June 30, 2002*
Assets	\$ 15,644,043	\$ 112,124,000
Liabilities	1,847,683	64,484,000
Fund Equity	\$ 13,796,360	\$ 47,640,000
Revenues	14,123,016	25,829,000
Expenses	12,145,411	11,023,000
Net Increase in Fund Equity	\$ 1,977,605	\$ 14,806,000

*Most current information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE 16 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2003, the following District major fund exceeded the budget as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 34,921,918	\$ 34,963,903	\$ 41,985
Classified salaries	\$ 8,486,113	\$ 8,568,089	\$ 81,976
Services and operating expenditures	\$ 7,472,867	\$ 7,735,581	\$ 262,714

CERES UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 17 - CHARTER SCHOOLS

The District has granted and approved a charter school pursuant to Education Code Section 47605. The Whitmore Charter School was granted and approved in June 2001 for a term of five years commencing July 1, 2001.

For disclosure purposes, the financial activities of the charter school is presented in the Charter School Fund.

NOTE 18 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2002, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$4,015,387, which matured on July 3, 2002. On July 3, 2002, the District issued \$1,310,000 of Tax and Revenue Anticipation Notes bearing interest at 3.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 3, 2003. By June 30, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded the cash available to make the principal and interest payments as Investments and with the corresponding liability as accounts payable.

	Outstanding July 1, 2002	Additions	Deletions	Outstanding June 30, 2003
2002 3.5% TRANS	\$ 4,015,387	\$ -	\$ 4,015,387	\$ -
2003 3.0% TRANS	-	1,310,000	-	1,310,000
Total	<u>\$ 4,015,387</u>	<u>\$ 1,310,000</u>	<u>\$ 4,015,387</u>	<u>\$ 1,310,000</u>

NOTE 19 - SUBSEQUENT EVENTS

The District issued \$6,695,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield 1.5 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 beginning January 2004, until 100 percent of principal and interest due is on account in June 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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CERES UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$45,057,202	\$46,005,932	\$ 46,133,130	\$ 127,198
Federal sources	5,094,249	5,507,485	5,217,486	(289,999)
Other state sources	12,517,218	8,698,095	8,499,826	(198,269)
Other local sources	4,914,657	4,868,736	5,222,358	353,622
Total Revenues	67,583,326	65,080,248	65,072,800	(7,448)
EXPENDITURES				
Current Expenditures:				
Certificated salaries	35,764,633	34,921,918	34,963,903	(41,985)
Classified salaries	8,087,202	8,486,113	8,568,089	(81,976)
Employee benefits	10,158,343	10,933,352	10,573,092	360,260
Books and supplies	3,430,341	3,530,004	3,345,728	184,276
Services and operating expenditures	7,751,527	7,472,867	7,735,581	(262,714)
Other outgo	921,136	1,296,766	1,256,779	39,987
Capital outlay	3,396,040	507,218	140,881	366,337
Debt service	166,893	152,998	152,998	-
Total Expenditures	69,676,115	67,301,236	66,737,051	564,185
Excess (Deficiency) of Revenues				
Over Expenditures	(2,092,789)	(2,220,988)	(1,664,251)	556,737
Other Financing Sources (Uses):				
Transfers in	2,520,381	56,337	205,877	149,540
Transfers out	(233,466)	(348,499)	(406,441)	(57,942)
Net Financing Sources (Uses)	2,286,915	(292,162)	(200,564)	91,598
NET CHANGE IN FUND BALANCES	194,126	(2,513,150)	(1,864,815)	648,335
Fund Balance - Beginning	7,176,702	7,176,702	7,176,702	-
Fund Balance - Ending	\$ 7,370,828	\$ 4,663,552	\$ 5,311,887	\$ 648,335

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

CUPERTINO UNION SCHOOL DISTRICT

BOARD OF EDUCATION

Pearl Cheng
President

Josephine Lucey
Clerk

George Tyson
Member

Ben Liao
Member

Gary McCue
Member

DISTRICT ADMINISTRATION

Dr. William E. Bragg
Superintendent of Schools

Rick Hausman
Assistant Superintendent of Business Services

GENERAL AND FINANCIAL INFORMATION

General

The Cupertino Union School District (the "District") provides educational services to residents of the City of Cupertino and portions of the Cities of San Jose, Saratoga, Los Altos, Sunnyvale, and Santa Clara in Santa Clara County. The District serves a population of approximately 129,913.

The District operates twenty elementary schools (including five elementary schools, fourteen K-6 elementary schools and one K-8 elementary school) and four middle schools (6-8).

The District's 2003/04 pupil-teacher ratios are 20:1 for grades K-3, 31:1 for grades 4-6, and 25:1 for grades 7-8.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. Dr. William E. Bragg has served in this capacity since May 1997.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

CUPERTINO UNION SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	15,283
2001/02 ^(b)	15,303
2002/03 ^(b)	15,550
2003/04 ^(c)	15,692
2004/05 ^(c)	15,742

^(a) Includes grades K-8, home and hospital and special education.

^(b) Audited Financial Statements.

^(c) Estimated -- Second Interim Report adopted on March 9, 2004.

Labor Relations

The District employs 817 full-time equivalent certificated and 440 full-time equivalent classified employees. There are three formal bargaining organizations that are active in the District.

CUPERTINO UNION SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration</u>
California School Employees Association	378	June 30, 2004
Cupertino Education Association	816	June 30, 2004
Service Employees International Union	170	June 30, 2004

Source: The District.

Investment of District Funds

Substantially all of the District's operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX E — SANTA CLARA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education**" and "**— Average Daily Attendance**" herein.

CUPERTINO UNION SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$65,723,840	67.90%
2001/02 ^(a)	68,912,575	71.42
2002/03 ^(b)	71,178,848	72.92
2003/04 ^(c)	70,860,543	69.89
2004/05 ^(c)	73,541,770	71.64

- (a) Audited Financial Statements.
 (b) Unaudited Financial Statement.
 (c) Second Interim Report adopted on March 9, 2004.
-

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no change in the number of full-time equivalent certificated or full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .40% in the 2004/05 fiscal year.

CUPERTINO UNION SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$78,750,620	83.90%
2001/02 ^(a)	82,947,037	84.40
2002/03 ^(b)	86,182,225	87.74
2003/04 ^(c)	87,401,136	84.27
2004/05 ^(c)	87,750,701	85.57

- (a) Audited Financial Statements.
 (b) Unaudited Financial Statement.
 (c) Second Interim Report adopted on March 9, 2004.
-

Comparative Financial Statements

The following table summarizes the District's revenues, expenditures and fund balances from fiscal year 2000/01 through 2004/05:

CUPERTINO UNION SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources:			\$71,178,848	\$ 70,860,543	\$ 73,541,770
State Aid	\$ 6,057,039	\$ 2,795,702			
Property Taxes	59,666,801	66,116,873			
Federal Revenue	2,385,777	2,579,063	2,865,129	4,169,562	4,169,562
Other State Revenue	17,714,020	14,416,392	12,941,978	13,224,123	13,260,594
Other Local Revenue	10,976,712	10,587,522	10,629,200	13,134,196	11,687,324
Total Revenues	96,800,349	96,495,552	97,615,156	101,388,424	102,659,250
Expenditures					
Certificated Salaries	48,162,656	49,494,877	50,232,195	51,102,843	51,398,415
Classified Salaries	15,603,255	16,890,634	17,576,148	18,678,343	18,751,486
Employee Benefits	14,984,709	16,561,526	18,373,881	17,619,950	17,600,800
Books and Supplies	5,578,908	6,739,971	4,849,939	8,155,809	7,525,313
Services, Other Operating Expenses	7,259,666	8,223,214	6,729,721	8,156,181	7,273,535
Capital Outlay	2,394,115	406,544	424,195	53,405	53,405
Other Outgo	(119,866)	(41,439)	42,961	(48,955)	(48,956)
Total Expenditures	93,863,443	98,275,327	98,229,041	103,717,576	102,553,998
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	186,720	147,634	524,478	570,349	570,349
Interfund Transfers Out / Other Uses	(43,702)	(1,437,129)	(235,452)	(1,453,319)	(1,453,319)
Total Other Financing Sources/(Uses)	143,018	(1,289,495)	289,026	(882,970)	(882,970)
Excess of Revenues Over (Under) Expenditures	3,079,924	(3,069,270)	(324,858)	(3,212,122)	(777,718)
Beginning Fund Balance	9,382,673	12,462,597	9,393,327	9,068,469	5,856,347
Ending Fund Balance	\$12,462,597	\$ 9,393,327	\$ 9,068,469	\$ 5,856,347	\$ 5,078,629

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 9, 2004.

District Debt

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On June 30, 2003, the District issued \$8,900,000 in tax and revenue anticipation notes due July 1, 2004. The notes are general obligations of the District secured and payable from general fund revenues received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see “**CUPERTINO UNION SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003.**”

Subsequent to the date of the Audited Financial Statement, June 30, 2003, the District issued 2003 General Obligation Bonds, election of 2001, Series B in the amount of \$29,999,558 on June 24, 2003.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.92 times the principal and interest due on the Notes at maturity. See “**THE NOTES — Security and Sources of Payment**” herein.

CUPERTINO UNION SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 8,856,345
Projected 2004/05 Cash Receipts (Including Note Proceeds)	111,983,891
Less Projected 2004/05 Disbursements (Excluding Note Proceeds)	<u>(104,007,318)</u>
Balance	\$ 16,832,918
Note Repayment	\$ 8,754,292
NOTE COVERAGE RATIO	1.92 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “**THE NOTES — Other District Funds**” herein.

CUPERTINO UNION SCHOOL DISTRICT Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance^(a)</u>	June 30, 2004, <u>Estimated Balance^(b)</u>	June 30, 2005, <u>Estimated Balance^(b)</u>
Special Revenue Funds			
Cafeteria	\$ 305,408	\$ 224,401	\$ 255,477
Deferred Maintenance	1,158,552	1,264,836	1,724,510
Subtotal for Special Revenue Funds	1,463,961	1,489,237	1,979,987
Capital Project Funds ^(c)			
Building	50,287,323	26,144,279	8,491,769
Capital Facilities	392,020	223,501	239,829
Special Reserve (Capital)	1,348,872	1,330,825	1,332,428
Subtotal for Capital Project Funds	52,028,215	27,698,605	10,064,026
Total Alternate Liquidity	\$53,492,175	\$29,187,842	\$12,044,013

^(a) Audited Financial Statement.

^(b) The District.

^(c) The District also received \$16,598,920 in January 2004 from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction and modernization projects.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

CUPERTINO UNION SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cupertino Union School District
Cupertino, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cupertino Union School District (the District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cupertino Union School District, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note #17 to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 3 through 10 and the budgetary comparison information on page 44 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek Trine Day & Co. LLP

San Jose, California
September 19, 2003



CUPERTINO UNION SCHOOL DISTRICT

Management Discussion and Analysis

DISTRICT PROFILE

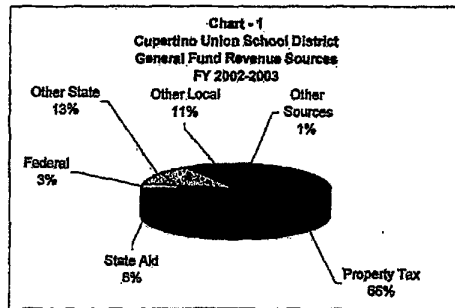
THE MISSION OF THE CUPERTINO UNION SCHOOL DISTRICT IS TO PROVIDE A CHILD-CENTERED ENVIRONMENT THAT CULTIVATES CHARACTER, FOSTERS ACADEMIC EXCELLENCE, AND EMBRACES DIVERSITY. DISTRICT FAMILIES, COMMUNITY, AND STAFF JOIN AS PARTNERS TO DEVELOP CREATIVE, EXEMPLARY LEARNERS WITH THE SKILLS AND ENTHUSIASM TO CONTRIBUTE TO A CONSTANTLY CHANGING GLOBAL SOCIETY.

The Cupertino Union School District (CUSD) was established in 1916. The District operates twenty elementary schools, and four middle schools, with a fifth middle school to be opened in August 2005. The District serves over 16,000 K-12 students in a 26-square mile area that includes the City of Cupertino and portions of five other cities in California's Silicon Valley. The student population is richly diverse with 57% Asian (includes Indian subcontinent), 36% White, 4% Hispanic, 1% Black and 1% Filipino.

FINANCIAL HIGHLIGHTS

Revenue Limit School District

The District has been a Revenue Limit School District since its inception. A Revenue Limit School District is a district whose local property tax revenue is lower than the state calculated "revenue limit" amount and the state, therefore, funds the difference. The composition of the District's source of revenue can be illustrated in Chart-1:



CUPERTINO UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

2003 Results of Operations

As of June 30, 2003, the District's general fund recorded total revenue of \$98,136,689 and total expenditures of \$98,461,549, resulting in an ending fund balance of \$9,068,467. Of this amount, \$2,953,934 is the required 3% reserve with an additional \$3,034,688 in available one-time reserves. The Governor's mid-year budget cut affected the District's revenue in funding reductions (\$485,356), and funding deferrals to 2003/2004 (\$754,630). In response to the mid-year cut, the District imposed controls on hiring, travel and conference, non-essential purchases, capital outlays and other budget saving measures to reduce the expenditures. In addition, the District supplemented the revenue with one-time funding from various sources.

Revenue Limit

In fiscal year 2002/2003 the District's Revenue Limit increased \$2,469,198 due to:

- A Cost of Living Allowance (COLA) of 2.04% - \$1,365,035
- An increase of 251 in ADA (Average Daily Attendance) - \$1,116,546
- Other Revenue Limit adjustments - (\$12,383)

For each additional ADA, the District received \$4,448.39 in base revenue limit from the State.

Governor's Mid-Year Cut (SBX1 18)

On December 9, 2002, the Governor called for a Special Legislative Session to address his mid-year budget cut proposal. After lengthy discussion, the Senate version of the budget cut was passed into law. It contained budget reductions and funding deferrals for the District in the following programs:

- Instructional Materials, 25% cut - \$282,655
- Peer Assessment and Review, 20% cut - \$25,171
- Mandated Cost reimbursement, 100% cut - \$94,982
- School Library, 33% cut - \$82,548
- Transportation funding deferred to 2003-2004, \$364,778
- School Improvement Program funding deferred to 2003/2004, \$389,852

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.

CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

- Proprietary fund statements offer financial information about the activities the District operates on a cost reimbursement basis, such as the self-insurance fund.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the District-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget, both the adopted and final version, with year-end actual results.

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional factors such as the economy of the State, and hence, the State's budget, the local economy, which could impact student enrollment and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide reconciliations between the Governmental Funds statements and the District-wide statements that explain the relationships (or differences) between them.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements, i.e., using full accrual accounting. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the self-insurance fund.
- Fiduciary funds – The District is the trust, or fiduciary, for assets that belong to others, such as the student funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were \$60.2 million dollars at June 30, 2003. (See Table- 1). The total assets comprise current and other assets (40.2%) and capital assets (59.8%). Total liabilities are comprised of current liabilities (16.2%) and long-term debt (83.8%). The total net assets are comprised of capital assets (72.4%), restricted assets (16.9%), and unrestricted assets (10.7%). Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limits the School Board's ability to use those net assets for day-to-day operations.

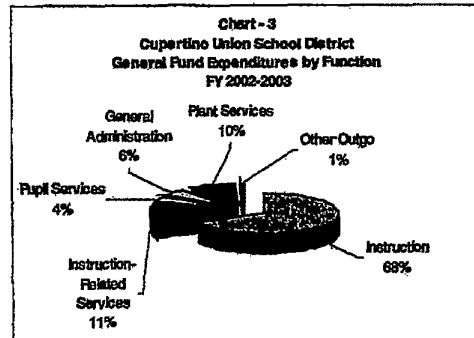
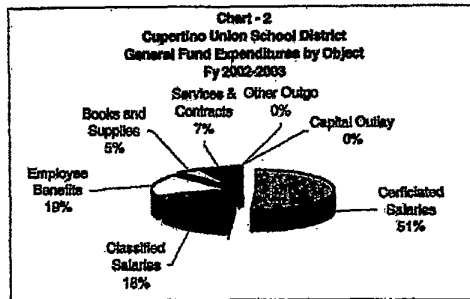
	Governmental Activities 2003
Current and other assets	\$89.5
Capital assets	133.0
Total Assets	\$222.5
Current liabilities	\$26.3
Long-term debt	136.0
Total Liabilities	\$162.3
Net assets	
Invested in capital assets, net of related debt	\$43.8
Restricted	10.2
Unrestricted	6.4
Total net assets	\$60.2

CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Governmental Activities

Charts 2 and 3 below illustrate the composition of the District's general fund expenditures, both by Object and by Function codes. As is common with other school districts, the majority of expenditures are for personnel salaries and the related benefits (approximately 88%).



CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

General Fund Budgetary Highlights

The original Adopted Budget projected an ending fund balance of \$8,844,633. The final budget projected an ending fund balance of \$8,298,496. Our actual ending balance at year-end is \$9,068,467 with \$3,034,688 in available ending fund balance in addition to the required 3% reserve of \$2,953,934. The overall difference is \$769,975 higher ending fund balance over the final budget, of which \$166,656 is from the categorical programs, and the remainder is from unrestricted programs. The variance from the categorical programs is due to several factors: (1) State and local revenues came in lower than anticipated. As of June 30 2003, the District has not received \$426,000 of allocated categorical funding, which resulted in both lower expenditures and revenue by \$426,000. (2) Some categorical programs' expenditures did not materialize by the end of the year, which resulted in lower than budgeted expenditures and thus lower "earned" revenue. For certain federal and state programs, the revenue is not "earned" until the funding is spent in the current fiscal year. This caused an offsetting variance of \$1,291,493 in both the expenditure and revenue categories. The unearned revenue will be carried forward into the following year for spending. (3) Various schools' budgets did not get spent by the end of the year, which resulted in "carryover" budget reserved in ending fund balance to be spent in the following year. This represents \$166,656 of the variance. In addition to the variance from the categorical programs, the variance of \$603,319 is from the unrestricted programs, which includes the positive variance of \$416,629 from budget savings in expenditures, \$502,761 from lower than projected encroachment from general fund to transportation programs and special education programs, \$28,266 from miscellaneous savings, and the negative variance of \$279,546 from lower than projected revenue and \$64,791 from higher reserve required in working capital. The lower than projected expenditures and encroachment from the general fund are due to the budget saving generated from various departments and programs, which was the result of the self-imposed fiscal controls in various expenditure areas by the District in response to the Governor's mid-year cut. The lower revenue resulted mostly from the decrease in the interest earnings from the County Investment pool due to the further decline in the interest rates as well as the lower daily cash balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2003 the District has invested \$229.0 million in a broad range of capital assets, including land, school buildings, modulators, computers and audio-visual equipment. (See Table - 2) This amount represents a net increase of \$18.9 million or 9.0 percent from 2001-2002.

**Table - 2
Cupertino Union School District
Capital Assets at Year - End
(in millions of dollars)**

	Total School District		Total Changes
	2002	2003	
Land	\$3.2	\$3.2	-
Site Improvements	\$11.1	\$11.4	\$0.3
Building and Improvements	\$191.4	\$209.3	\$17.9
Furniture and Equipment	\$4.4	\$5.1	\$0.7
Totals	\$210.1	\$229.0	\$18.9

CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Capital Facilities Projects

In June 2001 the voters approved the District's 2001 General Obligation Bonds in the amount of \$80,000,000. The Series A funding, \$30,000,000, was issued in November 2001, and the Series B amount, totaling \$29,999,558 was issued in June 2003. In 2002/2003 the District completed or began two major school renovations, nine modernizations, and numerous district-wide safety/health improvements. The first priority was security enhancements to all schools in the form of new door hardware/locks and a District-wide phone system, both installed in the summer of 2002. Lunch shade structures were installed throughout the District to protect student health. The District has also completed a major \$6M renovation of Eaton school and a \$6M renovation of the Murdock campus. These projects included roofing, air conditioning, technology enhancements, new lighting, construction of a new office and library, bathroom upgrades, carpeting replacement, and classroom modernization. On a smaller scale, nine other schools (Eisenhower, Garden Gate, Lincoln, Nimitz, Sedgwick, Stokmeir, West Valley, Miller, and Hyde) were modernized, with roofing and air conditioning being the largest components. These projects, completed in the summer of 2003, totaled nearly \$11M. Over the next two years the District is scheduled to accomplish a major renovation of Portal, modernization of 12 more schools and conversion of an elementary school to a middle school. The Portal \$8M renovation will be similar to Eaton and Murdock, but also include the addition of eight modular classrooms to accommodate student growth. The Collins campus will undergo a \$17M transition to become our fifth middle school. Besides renovating the existing facilities, a gym/performing arts center, two-story science building, new food service area, and new administration building will all be added to the site. Finally, the District has received approval for approximately \$31M in state matching funds to help fund these projects.

Long-Term Debt

As of June 30, 2003, the District has a total of \$140.4 million in long-term debt outstanding, of which \$129.1 million is in general obligation bonds and \$11.3 million is in other long-term debt. (See Table -3) This amount represents a net increase of \$26.2 million or 22.9 percent from 2001/2002. The majority of the increase is from the issuance of \$30.0 million Series B General Obligation Bonds, in June 2003. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

The District has continued to pay down its debt. In 2002/2003, the District retired \$4.3 million of outstanding bonds, \$0.9 million of Certificates of Participation, and \$0.4 million of capital leases.

**Table - 3
Cupertino Union School District
Outstanding Long-Term Debt at Year-End
(in millions of dollars)**

	Total		Total Changes
	School District		
	2002	2003	
General Obligation Bonds	\$102.1	\$129.1	\$27.0
Certificates of Participation	\$8.3	\$7.4	(\$0.9)
Capital Leases	\$3.2	\$3.3	\$0.1
Compensated Absences	\$0.6	\$0.6	\$0.0
Totals	\$114.2	\$140.4	\$26.2

CUPERTINO UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's enrollment has been on an upward trend in 2002/2003 and 2003/2004, but is expected to remain relatively constant over the next five years. However, the District's revenue limit has shown a downward trend due to the state's inability to fully fund the statutory COLA (Cost of Living Adjustment). In 2003/2004, the District's revenue limit indicates a 1.86% COLA with 3.0% deficit, and the deficit factor is expected to remain in 2004/2005.

The District is a revenue limit school district, and its financial outlook ties closely with the economy of the State and financial status of the State budget. Looking at 2004 and beyond, there are many uncertainties facing the state of California. In State's final budget, the Legislature covered the 2002/2003 deficit with the sales tax swap between the state and local government. As a result, the Legislative Analyst Office (LAO) projected that the State will face \$7.9 billion deficit in 2004/2005. When the newly elected Governor conducted his own audit of the State's budget, the deficit was even higher. How the new Governor will balance the State budget, and how that will affect the education budget remains to be seen. The District is financially solvent but may have to make program and personnel reductions, as necessary, to maintain fiscal stability if the anticipated State revenue does not materialize.

Benefits costs, especially for health and welfare, continue to increase annually, despite the District's recent cost containing measures. 2003/2004 is expected to be no exception.

The bargaining unit contracts are open for total consideration in 2004/2005, adding to the negotiations uncertainty and unknown impact on the future budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Rick Hausman, Assistance Superintendent, Business Services
10301 Vista Drive, Cupertino, CA 95014

Julia Yu, Director of Fiscal Service
10301 Vista Drive, Cupertino, CA 95014

CUPERTINO UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Deposits and investments	\$ 83,689,571
Receivables	5,084,537
Prepaid expenses	491,900
Stores inventories	200,538
Other current assets	32,654
Capital assets	228,997,465
Less: Accumulated depreciation	(96,026,799)
Total assets	222,469,866
Liabilities	
Accounts payable	18,598,042
Deferred revenue	3,323,670
Current portion of long-term obligations	4,339,769
Noncurrent portion of long-term obligations	136,038,015
Total liabilities	162,299,496
Net Assets	
Invested in capital assets, net of related debt	43,525,909
Restricted for:	
Legally restricted	2,063,179
Debt service	4,532,277
Capital projects	1,348,872
Special revenue	1,855,981
Self insurance	454,414
Unrestricted	6,389,738
Total net assets	\$ 60,170,370

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

CUPERTINO UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues Charges for Services and Sales	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction	\$ 67,314,657	\$ 3,986,184	\$ 9,860,347	\$ (53,468,126)
Instruction related activities:				
Supervision of instruction	3,749,583	271,551	761,619	(2,716,413)
Instructional library and technology	986,053	250,519	434,626	(300,908)
School site administration	6,507,691	44,542	20,759	(6,442,390)
Pupil services:				
Home-to-school transportation	2,167,371	214,445	1,319,794	(633,132)
Food services	2,676,308	2,267,379	471,751	62,822
All other pupil services	1,876,678	-	384,342	(1,492,336)
General administration:				
Data processing	1,298,838	-	-	(1,298,838)
All other general administration	4,377,935	217,179	189,743	(3,971,013)
Plant services	9,603,508	7,002	1,457	(9,595,049)
Facility acquisition and construction	2,445,123	-	610,528	(1,834,595)
Ancillary services	59,808	59,667	76	(65)
Community services	125,302	-	-	(125,302)
Interest on long-term debt	5,952,518	-	-	(5,952,518)
Other outgo	208,704	10,163	95,546	(102,995)
Depreciation (unallocated)	8,021,171	-	-	(8,021,171)
Total governmental-type activities	\$ 117,371,248	\$ 7,328,631	\$ 14,150,588	(95,892,029)
General revenues and subventions:				
Property taxes, levied for general purposes				66,228,574
Property taxes, levied for debt service				5,989,864
Taxes levied for other specific purposes				878
Federal and State aid not restricted to specific purposes				12,184,240
Interest and investment earnings				1,350,905
Miscellaneous				3,236,611
Subtotal, general revenues				88,991,072
Change in net assets				(6,900,957)
Net assets - beginning				67,071,327
Net assets - ending				\$ 60,170,370

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

CUPERTINO UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$12,026,742	\$58,350,262	\$ 9,053,020	\$ 79,430,024
Receivables	3,941,669	431,246	297,173	4,670,088
Due from other funds	655,109	387,260	23,196	1,065,565
Prepaid expenses	394,634	-	-	394,634
Stores inventories	90,553	-	109,985	200,538
Other current assets	-	2,500	-	2,500
Total assets	\$17,108,707	\$59,171,268	\$ 9,483,374	\$ 85,763,349
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,393,324	\$ 8,248,837	\$ 59,800	\$ 13,701,961
Due to other funds	610,453	635,108	19,521	1,265,082
Deferred revenue	2,036,463	-	-	2,036,463
Total liabilities	8,040,240	8,883,945	79,321	17,003,506
Fund Balances:				
Reserved for:				
Stores inventories	90,553	-	109,985	200,538
Other reservations	1,942,472	-	2,059	1,944,531
Unreserved:				
Designated	4,000,754	50,287,323	3,092,808	57,380,885
Undesignated, reported in:				
General fund	3,034,688	-	-	3,034,688
Special revenue funds	-	-	1	1
Debt service funds	-	-	6,199,200	6,199,200
Total fund balance	9,068,467	50,287,323	9,404,053	68,759,843
Total Liabilities and Fund Balances	\$17,108,707	\$59,171,268	\$ 9,483,374	\$ 85,763,349

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

CUPERTINO UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

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

Total Fund Balance - Governmental Funds		\$ 68,759,843
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	\$228,997,465	
Accumulated depreciation is	(96,026,799)	132,970,666
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		484,568
In governmental funds, accrued interest on long-term debt is recognized when paid. On the government-wide statements, accrued interest on long-term debt is recognized as it is incurred.		(1,666,923)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	129,096,418	
Certificates of Participation	7,365,000	
Capital leases payable	3,270,662	
Compensated absences	645,704	(140,377,784)
Total Net Assets - Governmental Activities		\$ 60,170,370

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

CUPERTINO UNION SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 71,178,848	\$ -	\$ 150,000	\$ 71,328,848
Federal sources	2,865,129	387,260	340,785	3,593,174
Other state sources	12,941,979	-	593,333	13,535,312
Other local sources	10,629,199	2,362,155	8,904,725	21,896,079
Total Revenues	97,615,155	2,749,415	9,988,843	110,353,413
EXPENDITURES				
Current				
Instruction	67,067,175	-	311,391	67,378,566
Instruction related activities:				
Supervision of instruction	3,749,583	-	-	3,749,583
Instructional library, media and technology	986,053	-	-	986,053
School site administration	6,507,691	-	-	6,507,691
Pupil Services:				
Home-to-school transportation	2,167,371	-	-	2,167,371
Food services	-	-	2,709,472	2,709,472
All other pupil services	1,876,678	-	-	1,876,678
General administration:				
Data processing	1,314,960	-	-	1,314,960
All other general administration	4,213,661	-	230,925	4,444,586
Plant services	9,499,337	95,930	38,480	9,633,747
Facility acquisition and construction	262,553	18,613,493	2,214,407	21,090,453
Ancillary services	59,808	-	-	59,808
Community services	125,302	-	-	125,302
Other outgo	-	-	1,944	1,944
Principal	183,414	136,508	5,180,000	5,499,922
Interest and other	205,455	97,537	4,505,806	4,808,798
Transfer between agencies	10,000	-	-	10,000
Total Expenditures	98,229,041	18,943,468	15,192,425	132,364,934
Deficiency of revenues over expenditures	(613,886)	(16,194,053)	(5,203,582)	(22,011,521)
Other Financing Sources (Uses):				
Transfers in	129,534	-	4,170,913	4,300,447
Other sources	392,000	30,057,458	-	30,449,458
Transfers out	(232,508)	(2,911,799)	(1,352,900)	(4,497,207)
Net Financing Sources	289,026	27,145,659	2,818,013	30,252,698
NET CHANGE IN FUND BALANCES	(324,860)	10,951,606	(2,385,569)	8,241,177
Fund Balance - Beginning	9,393,327	39,335,717	11,789,622	60,518,666
Fund Balance - Ending	\$ 9,068,467	\$ 50,287,323	\$ 9,404,053	\$ 68,759,843

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

CUPERTINO UNION 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, 2003**

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

Total Net Change in Fund Balances - Governmental Funds		\$ 8,241,177
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation expense	\$ (8,021,171)	
Capital outlays	19,102,689	11,081,518
Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds.		(35,238)
In the statement of activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$37,627.		(37,627)
Proceeds received from capital leases is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(392,000)
Proceeds received from the sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(29,999,558)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		4,320,000

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

CUPERTINO UNION 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, 2003

Repayment of Certificate of Participation 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.	\$ 860,000
Repayment of capital lease 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.	319,922
Accreted interest is not a expenditure in the governmental funds, but it increases the long term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities.	(1,279,632)
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 governmental funds when it is paid, 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 paid. Interest paid exceeds interest accrued by \$135,912.	135,912
An internal service fund is used by the District's management to charge the costs of the workers' compensation and other employee benefit programs to the individual funds. The net revenue of the internal service fund is reported with governmental activities, but is excluded from the governmental funds presentation.	(115,431)
Change in Net Assets of Governmental Activities	<u><u>\$ (6,960,957)</u></u>

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

CUPERTINO UNION SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF NET ASSETS JUNE 30, 2003

	<u>Governmental Activities - Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 4,259,547
Receivables	414,449
Due from other funds	200,321
Prepaid expenses	97,266
Other current assets	30,154
Total Assets	<u>5,001,737</u>
LIABILITIES	
Current Liabilities	
Accounts payable	67,028
Due to other funds	804
Deferred revenue	1,287,207
Claim Liabilities	3,162,130
Total Current Liabilities	<u>4,517,169</u>
NET ASSETS	
Restricted	97,266
Expendable	387,302
Total Net Assets	<u>\$ 484,568</u>

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

CUPERTINO UNION SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 12,471,072
Total Operating Revenues	<u>12,471,072</u>
OPERATING EXPENSES	
Payroll costs	159,048
Supplies and materials	6,579
Other operating cost	12,479,854
Total Operating Expenses	<u>12,645,481</u>
Operating Loss	(174,409)
NONOPERATING REVENUES	
Interest income	58,978
Change in net assets	(115,431)
Total Net Assets - Beginning	599,999
Total Net Assets - Ending	<u>\$ 484,568</u>

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

CUPERTINO UNION SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 12,150,383
Cash received from assessments made to other funds	440,141
Cash payments to employees for services	(159,048)
Cash payments for insurance claims	(10,408,439)
Cash payments for other operating expenses	(1,367,298)
Net Cash provided by operating activities	<u>655,739</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	58,978
Net increase in cash and cash equivalents	714,717
Cash and cash equivalents - Beginning	3,544,830
Cash and cash equivalents - Ending	<u>\$ 4,259,547</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	(174,409)
Changes in assets and liabilities:	
Receivables	(374,255)
Due from other fund	243,026
Prepaid expense	(41,842)
Other current assets	6,435
Accrued liabilities	746,103
Due to other fund	355
Deferred revenue	250,326
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 655,739</u>

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

CUPERTINO UNION SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Agency Funds
ASSETS	
Deposits and investments	\$ 138,445
Total assets	\$ 138,445
LIABILITIES	
Due to student groups	\$ 138,445
Total liabilities	\$ 138,445

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

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Cupertino Union School District was organized in 1916 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K – 8 as mandated by the State and/or Federal agencies. The District operates twenty elementary and four middle schools.

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

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agency. This organization does not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 11 to the financial statements. These organization is:

North Cal ReLIEF

Basis of Presentation - Fund Accounting

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

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

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

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Other Non-Major Governmental Funds

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

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

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

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

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:

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).

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

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

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance fund covering medical, dental, vision and workers' compensation programs.

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District only has agency funds.

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and 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. 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 function 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.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of the governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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

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

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

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2003, 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 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.

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 over the benefiting period.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide statements of net assets and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Depreciation of capital assets is computed using 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 statement of net assets.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability in the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in the statements but is shown as a component of general long-term debt.

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 employees subject to a collective bargaining agreement who retire after January 1, 1999. At retirement, each classified employee 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 from current financial resources, are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 set aside by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

Net Assets

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Interfund Activity

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

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

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Cash

Cash at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 215,688	\$ 65,751	\$ 281,439
Cash in revolving fund	66,410	-	66,410
Cash with fiscal agent	-	2,658,599	2,658,599
Total	\$ 282,098	\$ 2,724,350	\$ 3,006,448

	Governmental Carrying Amount	Proprietary Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 57,388	\$ 76,170	\$ 138,445	\$ 272,003
Cash in revolving fund	77,059	-	-	77,059
Cash with fiscal agent	1,772,923	885,476	-	2,658,399
Cash awaiting deposit	14,960	-	-	14,960
Total	\$ 1,922,330	\$ 961,646	\$ 138,445	\$ 3,022,421

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the district's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The fair values were provided by the county and State treasurers for their respective pools.

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Carrying Value			Fair Value
	Governmental	Proprietary	Total	
Uncategorized:				
Deposits with county treasurer	\$ 77,507,694	\$ 3,297,901	\$ 80,805,595	\$ 81,002,761

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of the following:

	General	Building	Nonmajor		Proprietary
			Funds	Total	
Federal Government					
Categorical aid	\$ 906,533	\$ 193,630	\$ 88,307	\$ 1,188,470	\$ -
State Government					
Categorical aid	10,352	-	553	10,905	-
Lottery	884,932	-	-	884,932	-
Other state	838,854	-	142,063	980,917	-
Local Government					
Interest	94,527	146,743	23,590	264,860	9,611
Other Local Sources	1,206,471	90,873	42,660	1,340,004	404,838
Total	\$ 3,941,669	\$ 431,246	\$ 297,173	\$ 4,670,088	\$ 414,449

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance	Additions	Deductions	Balance
	June 30, 2002			June 30, 2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 3,180,630	\$ -	\$ -	\$ 3,180,630
Capital Assets being depreciated:				
Land Improvements	11,135,987	259,417	-	11,395,404
Buildings and Improvements	191,434,825	17,917,279	-	209,352,104
Furniture and Equipment	4,392,933	925,993	249,599	5,069,327
Total Capital Assets being depreciated	206,963,745	19,102,689	249,599	225,816,835
Total Capital Assets	210,144,375	19,102,689	249,599	228,997,465
Less Accumulated Depreciation:				
Land Improvements	5,208,369	344,686	-	5,553,055
Buildings and Improvements	80,596,707	7,182,206	-	87,778,913
Furniture and Equipment	2,414,913	494,279	214,361	2,694,831
Total Accumulated Depreciation	88,219,989	8,021,171	214,361	96,026,799
Governmental Activities Capital Assets, Net	\$ 121,924,386	\$ 11,081,518	\$ 35,238	\$ 132,970,666

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6-- INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are as follows:

	Due From				
	General	Building	Nonmajor Governmental	Internal Service	Total
Due To					
General	\$ -	\$387,260	\$ 22,872	\$ 200,321	\$ 610,453
Building	635,108	-	-	-	635,108
Nonmajor governmental	19,197	-	324	-	19,521
Internal Service	804	-	-	-	804
Total	\$ 655,109	\$387,260	\$ 23,196	\$ 200,321	\$ 1,265,886

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

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer Out	Transfer In			Total
	General	Nonmajor Governmental	Internal Service	
General	\$ -	\$ 35,748	\$ 196,760	\$ 232,508
Building	-	2,911,799	-	2,911,799
Nonmajor governmental	129,534	1,223,366	-	1,352,900
Total	\$ 129,534	\$ 4,170,913	\$ 196,760	\$ 4,497,207

The Deferred Maintenance Fund transferred to the General Fund for transfer of expenditures to qualified deferred maintenance projects.	\$ 129,534
The General Fund transferred to the Child Development Fund for State Preschool Program support.	35,748
The General Fund transferred to the Self Insurance Fund for District designated health and welfare and workers' compensation coverage.	196,760
The Building Fund transferred to the Deferred Maintenance Fund for District deferred maintenance State match.	1,711,799
The Building Fund transferred to the Special Reserve Capital Fund to reserve for Certificates of Participation payment.	1,200,000
The Special Reserve-Capital Fund transferred to the Debt Service Fund for the 1995 COPS issue payment.	1,223,366
Total	\$ 4,497,207

NOTE 7 -- ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building	Nonmajor Governmental	Total	Self Insurance
Vendor payables	\$ 1,176,918	\$ 1,677,287	\$ 58,454	\$ 2,912,659	\$ 67,028
State apportionment	563,392	-	-	563,392	-
Salaries and benefits	3,119,643	19,476	1,346	3,140,465	-
Other significant payables	419,376	6,552,074	-	6,971,450	-
Other	113,995	-	-	113,995	-
Total	\$ 5,393,324	\$ 8,248,837	\$ 59,800	\$ 13,701,961	\$ 67,028

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	Self	
	General	Insurance
Federal financial assistance	\$ 237,627	\$ -
State categorical aid	637,789	-
Other local	1,161,047	1,287,207
Total	\$ 2,036,463	\$ 1,287,207

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance				Balance June 30, 2003	Due in One Year
	July 1, 2002	Accretion	Additions	Deductions		
General obligation bonds	\$ 102,137,228	\$ 1,279,632	\$ 29,999,558	\$ 4,320,000	\$ 129,096,418	\$ 2,575,000
Certificates of participation	8,225,000	-	-	860,000	7,365,000	905,000
Compensated absences	608,077	-	37,627	-	645,704	645,704
Capital leases	3,198,584	-	392,000	319,922	3,270,662	214,065
	<u>\$ 114,168,889</u>	<u>\$ 1,279,632</u>	<u>\$ 30,429,185</u>	<u>\$ 5,499,922</u>	<u>\$ 140,377,784</u>	<u>\$ 4,339,769</u>

Payments on the GO Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation are made by the Debt Service COP Fund but the ultimate revenue source is from a transfer in from the Building Fund. (See Note 6.) The accumulated vacation will be paid by the fund for which the employee worked. Payments on the capital leases are made by the General Fund and Building Fund.

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Original Issue	Bonds			Bonds Outstanding June 30, 2003
			Outstanding July 1, 2002	Issued/Accreted	Redeemed	
1995	8/1/20	\$ 29,500,000	\$ 3,400,000	\$ -	\$ 775,000	\$ 2,625,000
1997	8/1/21	18,250,000	17,570,000	-	425,000	17,145,000
1997	8/1/21	8,749,985	11,007,911	961,087	-	11,968,998
1999	8/1/23	8,800,000	8,530,000	-	270,000	8,260,000
1999	8/1/23	5,700,009	6,379,317	318,545	-	6,697,862
2001	8/1/26	25,250,000	25,250,000	-	750,000	24,500,000
2002	8/1/20	30,000,000	30,000,000	-	2,100,000	27,900,000
2003	8/1/27	29,999,558	-	29,999,558	-	29,999,558
			<u>\$ 102,137,228</u>	<u>\$ 31,279,190</u>	<u>\$ 4,320,000</u>	<u>\$ 129,096,418</u>

Debt Service Requirements to Maturity

The bonds mature through 2028 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 2,575,000	\$ 3,848,506	\$ 6,423,506
2005	2,570,153	4,084,290	6,654,443
2006	2,817,542	4,094,912	6,912,454
2007	3,122,429	4,086,507	7,208,936
2008	3,123,159	4,395,203	7,518,362
2009-2013	20,159,664	21,926,070	42,085,734
2014-2018	26,527,727	22,994,450	49,522,177
2019-2023	44,819,880	20,953,093	65,772,973
2024-2028	19,163,998	29,117,313	48,281,311
Total	124,879,552	\$ 115,500,344	\$ 240,379,896
Accretion to date	4,216,866	-	4,216,866
Total	<u>\$ 129,096,418</u>		

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Certificates of Participation

In December 1995, the District issued Certificates of Participation in the amount of \$12,500,000 with interest rates ranging from 4.0 to 5.5 percent. As of June 30, 2003, the principal balance outstanding was \$7,365,000.

The certificates mature through June 2013 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 905,000	\$ 382,760	\$ 1,287,760
2005	945,000	339,320	1,284,320
2006	995,000	293,015	1,288,015
2007	1,045,000	243,265	1,288,265
2008	1,100,000	188,925	1,288,925
2009-2013	2,375,000	197,450	2,572,450
Total	\$ 7,365,000	\$ 1,644,735	\$ 9,009,735

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$18,604,427 with corresponding accumulated depreciation of \$6,677,424 at June 30, 2003. The District's liability on lease agreements with options to purchase are summarized below:

	Copiers	Buses	Modulars	Total
Balance, July 1, 2002	\$ 111,005	\$ 244,170	\$ 3,699,218	\$ 4,054,393
Additions	427,091	-	-	427,091
Payments	74,889	111,394	256,106	442,389
Balance, June 30, 2003	\$ 463,207	\$ 132,776	\$ 3,443,112	\$ 4,039,095

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 237,716
2005	346,744
2006	508,698
2007	486,638
2008	486,638
2009-2013	1,972,661
Total	4,039,095
Less: Amount Representing Interest	768,433
Present Value of Minimum Lease Payments	\$ 3,270,662

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Building	Nonmajor Governmental	Total	Fiduciary Funds
Reserved					
Revolving cash	\$ 75,000	\$ -	\$ 2,059	\$ 77,059	\$ -
Stores inventory	90,553	-	109,985	200,538	-
Prepaid expenditures	394,634	-	-	394,634	97,266
Restricted programs	1,472,838	-	-	1,472,838	-
Total Reserved	2,033,025	-	112,044	2,145,069	97,266
Unreserved					
Designated					
Economic uncertainties	2,953,934	-	-	2,953,934	-
Other designation	1,046,820	50,287,323	3,092,808	54,426,951	-
Total Designated	4,000,754	50,287,323	3,092,808	57,380,885	-
Undesignated	3,034,688	-	6,199,201	9,233,889	387,302
Total Unreserved	7,035,442	50,287,323	9,292,009	66,614,774	387,302
Total	\$ 9,068,467	\$ 50,287,323	\$ 9,404,053	\$ 68,759,843	\$ 484,568

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Employee worker's compensation, dental and foundation plus medical programs are administered by the Self-Insurance Fund through the purchase of commercial insurance. During fiscal year ending June 30, 2003, the District contracted with the Northern California RELIEF public entity risk pool for property and liability excess property, liability, fidelity and boiler 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.

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Property and Liability		
North Cal ReLIEF	Property	\$ 150,000,000
North Cal ReLIEF	Liability	\$ 5,000,000
Excess Property and Liability Program		
North Cal ReLIEF	Excess Property and Liability	\$ 4,000,000
Fidelity		
North Cal ReLIEF	Fidelity	\$ 2,000,000
Boiler and Machinery		
North Cal ReLIEF	Boiler and Machinery	\$ 25,000,000

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

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

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 2002-2003 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, 2003, 2002, and 2001, were \$4,167,759, \$3,754,041, and \$4,071,205, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$492,888, \$0, and \$0, respectively, and equal 100 percent of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligation to STRS.

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 \$2,297,694 (4.475 percent of salaries subject to STRS) and \$ 15,667 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Eaton Elementary School	\$ 844,325	09/30/03
Murdock Elementary School	4,011,090	12/31/03
Eisenhower Elementary School	690,440	09/30/03
Garden Gate Elementary School	651,424	09/30/03
Lincoln Elementary School	549,457	09/30/03
Nimitz Elementary School	610,210	09/30/03
Sedgwick Elementary School	968,491	09/30/03
Stockmeir Elementary School	1,078,036	09/30/03
West Valley Elementary School	715,494	09/30/03
Hyde Middle School	808,725	09/30/03
Miller Middle School	751,917	09/30/03
	<u>\$ 11,679,609</u>	

CUPERTINO UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

The District is a member of the Northern California RELIEF joint powers authority. The District pays an annual premium to the Northern California RELIEF JPA. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

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

- A. Entity North Cal ReLIEF
- B. Purpose Provides property/liability, excess property/liability, fidelity, boiler and machinery coverage
- C. Participants Northern California School Districts
- D. Governing Board One member from each participating district
- E. Condensed Audited Financial Information Follows

	June 30, 2002
Assets	\$ 22,106,566
Liabilities	<u>15,267,217</u>
Fund Equity	<u>\$ 6,839,349</u>
Revenues	<u>\$ 19,767,657</u>
Expenses	<u>16,644,047</u>
Net Increase in Fund Equity	<u>\$ 3,123,610</u>

- F. Payments for the Current Year \$ 242,978

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

On July 2, 2002, the District issued \$6,200,000 in Tax and Revenue Anticipation Notes bearing interest at 2.75 percent. The notes were issued to supplement cash flow. Interest and principal were paid by June 30, 2003.

NOTE 16 - SUBSEQUENT EVENT

The District issued \$8,900,000 of Tax and Revenue Anticipation Note dated July 1, 2003. The notes mature on June 30, 2003, and yield 1.75 percent interest. The notes were sold to supplement cash flow.

CUPERTINO UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 17 – DEFERRED STATE APPORTIONMENTS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB) X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves in the General Fund of \$353,591.

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DUBLIN UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Randy Shumway
President

Denis King
Clerk

Eric Swalwell
Member

David Haubert
Member

Kevin Hart
Member

DISTRICT ADMINISTRATION

John Sugiyama
Superintendent

Gene Turner
Chief Fiscal Officer

GENERAL AND FINANCIAL INFORMATION

Introduction

The District includes approximately 12.65 square miles in the southern part of Alameda County and provides educational services to the residents of the City of Dublin (the "City"). The estimated population of the District is 32,550.

The District operates five elementary schools (K-5), one middle school (6-8), one high school (9-12) and one continuation school.

The District's 2003/04 pupil-teacher ratios are 21.89:1 for grades K-5, 25.43:1 for grades 6-8, and 23.37:1 for grades 9-12.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. John Sugiyama has served in this capacity since July 1996.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

DUBLIN UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	3,895
2001/02 ^(b)	4,038
2002/03 ^(b)	4,160
2003/04 ^(c)	4,252
2004/05 ^(d)	4,342

^(a) Includes grades K-12, special education, continuation education and home and hospital; does not include adult education or ROP.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 9, 2004.

^(d) The District.

Labor Relations

The District employs 262 full-time equivalent certificated and 155 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

DUBLIN UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California Schools Employees Association	362	June 30, 2005 ^(a)
Dublin Teachers Association	310	June 30, 2002 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Alameda County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See **"APPENDIX C – ALAMEDA COUNTY—COUNTY INVESTMENT PORTFOLIO REPORT"** herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See **"GENERAL SCHOOL DISTRICT INFORMATION– State Funding of Education"** and **"—Average Daily Attendance"** herein.

DUBLIN UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$21,828,015	74.38%
2001/02 ^(a)	23,349,534	72.42
2002/03 ^(b)	24,320,246	73.12
2003/04 ^(c)	24,562,330	75.35
2004/05 ^(c)	25,884,687	75.82

- ^(a) Audited Financial Statements.
^(b) Unaudited Financial Statements.
^(c) Second Interim Report adopted on March 9, 2004.
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The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects an increase of three full-time equivalent certificated and a reduction of three full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .95% in the 2004/05 fiscal year.

DUBLIN UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$23,771,683	80.58%
2001/02 ^(a)	26,263,736	82.84
2002/03 ^(b)	27,450,881	82.61
2003/04 ^(c)	27,926,430	83.53
2004/05 ^(c)	28,190,847	83.40

- ^(a) Audited Financial Statements.
^(b) Unaudited Financial Statement.
^(c) Second Interim Report adopted on March 9, 2004.
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Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

DUBLIN UNIFIED SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balance

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^{(a)(b)}	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources			\$ 24,320,246	\$ 24,562,330	\$ 25,884,687
State Aid	\$ 8,743,172	\$ 8,651,611			
Property Taxes	13,084,843	14,697,923			
Federal Revenue	602,708	755,596	917,400	987,403	1,007,151
Other State Revenue	4,009,925	4,927,703	4,880,832	3,630,395	3,763,378
Other Local Revenue	2,905,528	3,210,598	3,141,209	3,419,204	3,486,244
Total Revenues	29,346,176	32,243,431	33,259,687	32,599,332	34,141,460
Expenditures					
Certificated Salaries	16,179,890	17,636,025	18,198,536	18,610,947	18,700,491
Classified Salaries	4,421,746	4,892,504	5,226,501	5,108,777	5,192,536
Employee Benefits	3,170,047	3,735,207	4,025,845	4,206,706	4,297,820
Books and Supplies	1,245,464	1,232,940	1,147,786	1,508,783	1,539,394
Services, Other Operating Expenses	2,436,620	3,634,714	3,479,771	3,479,771	3,840,455
Capital Outlay	1,456,085	229,812	-	-	-
Other Outgo	591,319	342,410	1,151,462	230,005	231,732
Direct Support/Indirect Costs				-	-
Total Expenditures	29,501,171	31,703,612	33,229,901	33,431,425	33,802,428
Other Financing Sources/Uses					
Interfund Transfers In / Other Sources	392,165	66,197	470,835	348,500	-
Interfund Transfers Out / Other Uses	(310,677)	(294,275)	(361,523)	(96,221)	-
Total Other Financing Sources/Uses	81,488	228,078	109,312	252,279	-
Revenues Over (Under) Expenditures	(73,507)	311,741	139,098	(579,814)	339,032
Prior Year Ending Balance	1,339,740	1,266,233	1,577,974	1,717,072	1,137,258
Ending Fund Balance	\$ 1,266,233	\$ 1,577,974	\$ 1,717,072	\$ 1,137,258	\$ 1,476,290

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Second Interim Report adopted on March 9, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$5,000,000 tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "DUBLIN UNIFIED SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.26 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

DUBLIN UNIFIED SCHOOL DISTRICT	
Note Coverage Ratio	
<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 442,521
Projected 2004/05 Cash Receipts (Including Note Proceeds)	37,974,636
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(33,876,390)</u>
Balance	\$ 4,540,767
Note Repayment	\$ 3,604,758
NOTE COVERAGE RATIO	1.26 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “**THE NOTES — Other District Funds**” herein.

DUBLIN UNIFIED SCHOOL DISTRICT Other District Funds

<u>Funds</u>	<u>June 30, 2003, Balance ^(a)</u>	<u>June 30, 2004, Estimated Balance ^(b)</u>	<u>June 30, 2005, Estimated Balance ^(b)</u>
Special Revenue Funds			
Cafeteria	\$ 238,686	\$ 124,663	\$ 125,000
Deferred Maintenance	219,262	116,363	200,000
Special Reserve	916,237	754,459	750,000
Subtotal for Special Revenue Funds	<u>1,374,185</u>	<u>995,485</u>	<u>1,075,000</u>
Capital Project Funds			
Building	4,581,218	3,000,000	2,500,000
Capital Facilities	10,241,033	10,941,620	6,000,000
County School Facilities	3,050,913	2,893,849	0
Subtotal for Capital Project Funds	<u>17,873,164</u>	<u>16,835,469</u>	<u>8,500,000</u>
Total Alternate Liquidity	<u>\$19,247,349</u>	<u>\$17,830,954</u>	<u>\$9,575,000</u>

^(a) Audited Financial Statement.

^(b) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

District: Dublin Unified
Tax and Revenue Anticipation Notes

EXHIBIT I
ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Receipts													
Revenue Limit: Property Tax	44,012	13,660	688,034	24,038	946,488	5,456,240	3,475,245	11,701	11,701	5,313,257	11,701	1,149,698	\$ 15,445,087
Revenue Limit: State Aid	449,449	843,652	574,712	574,712	574,712	771,988	574,712	1,168,485	323,076	520,352	520,352	0	\$ 5,051,753
Other Receipts	258,026	444,906	907,929	1,687,821	1,051,477	685,240	939,455	664,367	1,845,574	663,386	919,565	308,500	\$ 10,243,205
Note Proceeds and Interest Earnings	5,029,302	0	0	0	0	0	0	0	0	0	0	45,490	\$ 5,074,792
Total Receipts	\$ 6,178,815	\$ 1,302,118	\$ 12,170,685	\$ 2,386,571	\$ 2,572,677	\$ 13,913,468	\$ 8,024,412	\$ 12,834,152	\$ 2,140,357	\$ 6,437,015	\$ 1,561,218	\$ 1,504,788	\$ 22,361,845
Disbursements													
Salaries and Benefits	558,696	718,152	2,611,941	2,576,022	2,646,195	2,503,560	2,613,851	2,639,726	2,665,106	2,665,084	2,665,110	2,891,242	\$ 24,595,585
Other Disbursements	1,863,998	569,751	353,416	1,775,177	471,157	728,245	336,315	399,467	806,544	568,785	820,243	1,168,324	\$ 7,307,665
Note Payment Pledge	0	0	0	0	0	0	2,000,000	0	0	2,000,000	1,074,792	0	\$ 5,074,792
Total Disbursements	\$ 2,422,694	\$ 1,287,903	\$ 3,317,367	\$ 4,351,299	\$ 3,117,442	\$ 3,231,805	\$ 4,950,166	\$ 2,639,193	\$ 3,471,650	\$ 3,233,869	\$ 4,559,145	\$ 4,059,566	\$ 37,077,847
Net Increase/Decrease	\$ 1,756,121	\$ 1,014,215	\$ (1,146,682)	\$ (1,964,728)	\$ (544,765)	\$ (818,337)	\$ (3,925,764)	\$ 1,194,959	\$ (1,331,293)	\$ (596,854)	\$ (997,927)	\$ (1,554,778)	\$ (14,716,002)
Ending Cash	\$ 4,756,121	\$ 5,770,336	\$ 4,623,654	\$ 2,658,926	\$ 2,114,161	\$ 1,295,824	\$ 730,060	\$ 1,924,919	\$ 593,026	\$ 3,036,172	\$ 2,061,291	\$ 454,212	\$ 1,845,848

EXHIBIT II
PROJECTED CASHFLOW
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Receipts													
Revenue Limit: Property Tax	46,382	14,396	725,076	25,332	997,444	5,749,987	3,662,341	12,331	12,331	5,599,306	12,331	1,211,594	\$ 16,775,176
Revenue Limit: State Aid	444,993	889,986	593,324	593,324	593,324	593,324	593,324	1,171,412	585,706	585,706	585,706	0	\$ 5,461,429
Other Receipts	182,714	426,016	690,040	1,517,217	816,592	684,291	699,729	589,993	1,765,305	657,052	725,818	316,181	\$ 8,071,820
Note Proceeds and Interest Earnings	3,545,500	0	0	0	0	0	0	0	0	0	0	59,208	\$ 3,604,708
Total Receipts	\$ 4,257,589	\$ 1,330,408	\$ 1,418,440	\$ 2,135,773	\$ 1,407,360	\$ 7,027,602	\$ 4,362,074	\$ 12,910,725	\$ 2,443,344	\$ 6,242,364	\$ 1,403,825	\$ 1,586,983	\$ 23,861,833
Disbursements													
Salaries and Benefits	565,962	727,707	2,636,765	2,599,600	2,670,197	2,525,763	2,637,918	2,663,783	2,690,041	2,690,020	2,690,046	2,919,060	\$ 24,595,585
Other Disbursements	483,664	319,897	355,359	829,852	480,181	505,201	342,659	415,937	474,163	428,185	487,965	736,463	\$ 3,345,460
Note Payment Pledge	0	0	0	0	0	0	1,400,000	0	0	1,400,000	804,708	0	\$ 3,604,708
Total Disbursements	\$ 1,049,626	\$ 1,047,604	\$ 3,388,479	\$ 3,429,452	\$ 3,150,378	\$ 3,030,964	\$ 4,380,577	\$ 3,079,720	\$ 3,164,204	\$ 3,518,205	\$ 3,982,759	\$ 3,655,523	\$ 31,545,753
Net Increase/Decrease	\$ 3,207,963	\$ 2,932,804	\$ (1,970,039)	\$ (1,293,679)	\$ (743,018)	\$ (3,203,362)	\$ (1,018,503)	\$ 9,831,005	\$ (720,860)	\$ (265,841)	\$ (1,578,934)	\$ (2,078,611)	\$ (7,683,920)
Ending Cash	\$ 6,207,963	\$ 5,865,608	\$ 3,823,561	\$ 2,530,882	\$ 1,787,864	\$ 884,502	\$ (138,503)	\$ 12,712,502	\$ 12,191,644	\$ 11,925,803	\$ 10,346,867	\$ 8,268,251	\$ 6,151,928

Note: Beginning cash includes cash balance from Special Reserve Fund.

DUBLIN UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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INDEPENDENT AUDITORS' REPORT

Governing Board
Dublin Unified School District
Dublin, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Dublin Unified School District, as of June 30, 2003, and the respective changes in financial positions thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District recognized certain deferred state apportionments as revenue in the current fiscal year.

As discussed in the Note 2 to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on page 41, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The non-major governmental fund's balance sheet and statement of revenues, expenditures, and changes in fund balance and the assessed valuation schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
November 25, 2003



DUBLIN SCHOOLS

DUBLIN UNIFIED SCHOOL DISTRICT

Committed to the Success of all Students

7471 Larkdale Avenue, Dublin, California 94568-1599 Telephone (925) 828-2551 Fax (925) 829-6532

This section of Dublin Unified School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is the first year that Dublin Unified School District is presenting financial statements in accordance with the Governmental Accounting Standards Board (GASB) No. 34. Therefore, certain data is not available for the fiscal year ended June 30, 2002 for comparative analysis. Comparative analysis will be presented in future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Dublin Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

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

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Dublin Unified School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- District managed to maintain the state recommended reserve for economic uncertainty at 3 percent in spite of significant revenue reductions from the state in December 2002
- District managed budget reductions in 2002-2003 in the amount of \$223,686 with minimal impact on the district's educational programs

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, the District activities are presented as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, 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, 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.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$150,833,720 for the fiscal year ended June 30, 2003. Of this amount, \$2,195,081 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

	Governmental Activities
Current and other assets	\$ 27,186,141
Capital assets	170,972,912
Total Assets	198,159,053
Current liabilities	5,594,165
Long-term debt	41,731,168
Total Liabilities	47,325,333
Net assets	
Invested in capital assets, net of related debt	128,665,961
Restricted	19,972,678
Unrestricted	2,195,081
Total Net Assets	\$ 150,833,720

The \$2,195,081 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$2,195,081 left. We will need to closely monitor our expenditures in the future and adhere strictly to the budget to increase this \$2,195,081.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 12. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities
Revenues	
Program revenues:	
Charges for services	\$ 4,204,912
Operating grants and contributions	4,275,653
Capital grants and contributions	167,520
General revenues:	
State revenue limit sources	9,197,732
Property taxes	18,832,016
Other general revenues	3,893,725
Total Revenues	40,571,558
Expenses	
Instruction related	22,775,490
Student support services	5,862,132
Administration	2,695,872
Maintenance and operations	4,552,332
Other	2,170,382
Total Expenses	38,056,208
Change in Net Assets	\$ 2,515,350

Governmental Activities

As reported in the Statement of Activities on page 12, the cost of all of our governmental activities this year was \$38,056,208. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,832,016 because the cost was paid by those who benefited from the programs (\$4,204,912) or by other governments and organizations who subsidized certain programs with grants and contributions (\$4,443,173). We paid for the remaining "public benefit" portion of our governmental activities with \$9,197,732 in State funds and \$3,893,725 with other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's seven largest functions - regular program instruction, guidance and counseling, school administration, pupil transportation, administration, maintenance and operations, and other services as well as each program's *net* cost. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Net Cost of Services
Instruction	\$ 17,372,738
Guidance and counseling	786,198
School administration	2,255,380
Pupil transportation	111,906
Administration	2,063,452
Maintenance and operations	3,985,720
Other	2,832,729
Totals	\$ 29,408,123

The District projected an increase in net assets of approximately \$2,532,174

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$22,510,896 million, which is an increase of \$1,959,890 million from last year.

The primary reasons for this increase:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$139,098 million to \$1,717,072 million. This increase is primarily due to increased enrollment and decreased expenditures in discretionary accounts in anticipation of expected state budget reductions.
- b. Our Capital Facilities Fund balance increased from \$7,724,078 million to \$10,241,033 million. This increase is primarily due to expansion of the Dublin Ranch development in Eastern Dublin and collection of the related developer fee revenue.

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 as the books were closed in September 2003. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 41.

- Significant revenue revisions made to the 2002/03 Budget were due to Special Education AB602 revenues and increased enrollment for the revenue limit calculations.
- Budgeted expenditures increased by \$1,341,130 due to significant carryovers from restricted funding in the instructional programs.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$170,972,912 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation. This amount represents a net increase (including additions, deductions and depreciation) of just under \$219,123 or .1 percent, from last year.

Table 4

	Governmental Activities
Land	\$ 143,122,043
Construction in progress	3,163,911
Buildings and improvements	24,543,296
Equipment	143,662
Totals	\$ 170,972,912

This year's additions of \$885,278 included administrative remodels at Frederickson and Murray. No debt was issued for these additions.

We present more detailed information about our capital assets in Note 5 to the financial statements.

Long-Term Debt

At the end of this year, the District had \$42,306,952 million in bonds outstanding versus \$42,334,538 million last year. Those bonds consisted of:

Table 5

	Governmental Activities
General obligation bonds	\$ 42,306,952

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 5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$42,306,952 million is significantly below this \$245,024,469 million statutory - imposed limit.

Other obligations include compensated absences payable and early retirement incentives. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

Continued the \$885,278 Administrative Office Remodeling of Frederickson Elementary and Murray Elementary.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003/2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Average Daily attendance will grow by 67 ADA or 1.59 %.
2. Developer Fee collections are based on approximate number of housing units to be constructed in Eastern Dublin.
3. Federal income will remain approximately the same as current year.
4. State income will decrease by 12 percent due to state funding reductions.

Expenditures are based on the following forecasts:

	<u>Enrollment</u>
Grades kindergarten through fifth	2014
Grades six through eight	1024
Grades nine through twelve	1345

The new items specifically addressed in the budget are:

1. State budget reductions are implemented at \$1,549,763 million.
2. Step and column are implemented for all bargaining units.
3. There is no allowance for a salary cost of living adjustment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Fiscal Officer, at Dublin Unified School District, 7471 Larkdale Avenue, Dublin, California, 94568-1599, or e-mail at heironimusbeverly@dublin.k12.ca.us.

DUBLIN UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

Assets	Governmental Activities
Deposits and investments	\$ 24,043,773
Receivables	2,717,345
Prepaid expenses	363,807
Stores inventories	61,216
Capital assets	185,084,879
Less: Accumulated depreciation	(14,111,967)
Total assets	198,159,053
Liabilities	
Overdrafts	5,544
Accounts payable	4,197,263
Deferred revenue	537,468
Current portion of long-term obligations, net of bond premiums	853,890
Noncurrent portion of long-term obligations, net of bond premiums	41,731,168
Total liabilities	47,325,333
Net Assets	
Invested in capital assets, net of related debt	128,665,961
Restricted for:	
Legally restricted	95,061
Debt service	1,546,475
Capital projects	17,873,164
Other purpose	457,978
Unrestricted	2,195,081
Total net assets	\$ 150,833,720

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

DUBLIN UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expenses) and Revenues Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 22,775,490	\$ 2,566,353	\$ 2,668,879	\$ 167,520	\$ (17,372,738)
Instruction related activities:					
Supervision of instruction	856,461	106,960	238,380	-	(511,121)
Instructional library media and technology	345,284	6,176	30,624	-	(308,484)
School site administration	2,276,583	1,464	19,739	-	(2,255,380)
Pupil services:					
Home-to-school transportation	212,288	-	100,382	-	(111,906)
Food services	1,147,185	800,727	158,152	-	(188,306)
All other pupil services	1,024,331	78,359	159,774	-	(786,198)
General administration:					
Data processing	536,930	86,634	50,747	-	(399,549)
All other general administration	2,158,942	278,738	216,301	-	(1,663,903)
Plant services	4,552,332	279,501	287,111	-	(3,985,720)
Ancillary services	235,820	-	-	-	(235,820)
Interest on long-term debt	1,582,830	-	-	-	(1,582,830)
Other (outgo)	351,732	-	345,564	-	(6,168)
Total governmental-type activities	\$ 38,056,208	\$ 4,204,912	\$ 4,275,653	\$ 167,520	(29,408,123)
General revenues and subventions:					
Property taxes, levied for general purposes				17,018,825	
Property taxes, levied for debt service				1,813,191	
Federal and State aid not restricted to specific purposes				11,058,501	
Interest and investment earnings				300,363	
Miscellaneous				1,732,593	
Subtotal, general revenues				31,923,473	
Change in net assets				2,515,350	
Net assets - beginning				148,318,370	
Net assets - ending				\$ 150,833,720	

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

DUBLIN UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 3,475,961	\$ 4,986,438	\$ 10,826,686
Receivables	2,399,643	19,606	124,754
Due from other funds	429,825	12,500	89,733
Prepaid expenses	11,585	-	-
Stores inventories	49,180	-	-
Total assets	\$ 6,366,194	\$ 5,018,544	\$ 11,041,173
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	-	-	-
Accounts payable	3,456,867	65,947	88,667
Due to other funds	654,787	371,379	711,473
Deferred revenue	537,468	-	-
Total liabilities	4,649,122	437,326	800,140
Fund Balances:			
Reserved for:			
Stores inventories	49,180	-	-
Other reservations	131,646	-	-
Unreserved:			
Designated	1,536,246	4,581,218	10,241,033
Undesignated, reported in:			
General fund	-	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Total fund balance	1,717,072	4,581,218	10,241,033
Total Liabilities and Fund Balances	\$ 6,366,194	\$ 5,018,544	\$ 11,041,173

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

County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 2,936,605	\$ 1,818,083	\$ 24,043,773
11,546	50,616	2,606,165
150,000	1,199,658	1,881,716
-	-	11,585
-	12,036	61,216
<u>\$ 3,098,151</u>	<u>\$ 3,080,393</u>	<u>\$ 28,604,455</u>

-	5,544	5,544
26,038	31,312	3,668,831
21,200	122,877	1,881,716
-	-	537,468
<u>47,238</u>	<u>159,733</u>	<u>6,093,559</u>

-	12,036	61,216
-	-	131,646
3,050,913	1,362,149	20,771,559
-	-	-
-	-	-
-	1,546,475	1,546,475
<u>3,050,913</u>	<u>2,920,660</u>	<u>22,510,896</u>
<u>\$ 3,098,151</u>	<u>\$ 3,080,393</u>	<u>\$ 28,604,455</u>

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DUBLIN UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

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

Total Fund Balance - Governmental Funds	\$ 22,510,896
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	\$ 185,084,879
Accumulated depreciation is	<u>(14,111,967)</u>
	170,972,912
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.	111,180
Prepaid expenditures relating to issuance of GO bonds were recognized in governmental funds, but are recognized as an expense over the life of the bonds on the government-wide financial statements.	352,222
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(528,432)
Long-term Obligations at year end consist of:	
Bonds payable, net of premiums	42,306,951
Compensated absences (vacations)	28,107
Early retirement	<u>250,000</u>
	<u>(42,585,058)</u>
Total Net Assets - Governmental Activities	<u>\$ 150,833,720</u>

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

DUBLIN UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Revenue limit sources	\$24,320,246	\$ -	\$ -
Federal sources	917,400	-	-
Other state sources	4,880,832	-	-
Other local sources	3,141,209	159,208	4,082,280
Total Revenues	<u>33,259,687</u>	<u>159,208</u>	<u>4,082,280</u>
EXPENDITURES			
Current			
Instruction	21,657,392	-	-
Instruction related activities:			
Supervision of instruction	856,461	-	-
Instructional library, media and technology	345,284	-	-
School site administration	2,276,583	-	-
Pupil Services:			
Home-to school transportation	212,288	-	-
Food services	-	-	-
All other pupil services	1,062,559	-	-
General administration:			
Data processing	536,930	-	-
All other general administration	1,763,919	-	391,919
Plant services	3,930,933	143,382	230,916
Facility acquisition and construction	-	781,792	329,624
Ancillary services	235,820	-	-
Other outgo	351,732	-	-
Debt service			
Principal	-	-	-
Interest and other	-	2,169	-
Total Expenditures	<u>33,229,901</u>	<u>927,343</u>	<u>952,459</u>
Excess (deficiency) of revenues over expenditures	29,786	(768,135)	3,129,821
Other Financing Sources (Uses):			
Transfers in	470,835	-	-
Other sources	-	17,799	-
Transfers out	(361,523)	(120,355)	(612,866)
Net Financing Sources (Uses)	<u>109,312</u>	<u>(102,556)</u>	<u>(612,866)</u>
NET CHANGE IN FUND BALANCES	<u>139,098</u>	<u>(870,691)</u>	<u>2,516,955</u>
Fund Balance - Beginning	1,577,974	5,451,909	7,724,078
Fund Balance - Ending	<u>\$ 1,717,072</u>	<u>\$ 4,581,218</u>	<u>\$ 10,241,033</u>

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

DUBLIN UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

County School Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 265,059	\$ 24,585,305
-	153,056	1,070,456
167,520	153,116	5,201,468
125,830	2,658,508	10,167,035
<u>293,350</u>	<u>3,229,739</u>	<u>41,024,264</u>
-	104,830	21,762,222
-	-	856,461
-	-	345,284
-	-	2,276,583
-	-	212,288
-	1,146,523	1,146,523
-	-	1,062,559
-	-	536,930
-	120	2,155,958
12,226	202,998	4,520,455
156,498	-	1,267,914
-	-	235,820
-	-	351,732
-	992,546	992,546
-	1,356,729	1,358,898
<u>168,724</u>	<u>3,803,746</u>	<u>39,082,173</u>
<u>124,626</u>	<u>(574,007)</u>	<u>1,942,091</u>
-	1,034,744	1,505,579
-	-	17,799
-	(410,835)	(1,505,579)
-	623,909	17,799
124,626	49,902	1,959,890
2,926,287	2,870,758	20,551,006
<u>\$ 3,050,913</u>	<u>\$ 2,920,660</u>	<u>\$ 22,510,896</u>

Total Net Change in Fund Balances - Governmental Funds	\$ 1,959,890
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 statements of activities. This is the amount by which capital outlays exceeds depreciation in the period.	
Depreciation expense	\$ (1,048,791)
Capital outlays	<u>1,267,914</u>
	219,123
Increase in early retirement is not accrued in governmental funds as they are not normally expected to be liquidated with current financial resources. On the other hand, it constitutes long-term obligations in the statement of net assets.	(182,101)
Revenue related to the Special Education mandate settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets.	(16,824)
Premium on 2002 GO bonds constitutes long-term obligations in the statement of net assets and does not affect the statement of activities.	(271,580)
Payment of issuance costs of bonds is an expenditure in the governmental funds, but it should be recorded as prepaid expense and amortized on the statement of net assets.	352,222
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.	992,546
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of three factors. First, \$528,432 was accrued on bonds and decreased by \$645,658 accrued bond interest relating to prior period. Second, \$712,617 of additional accumulated interest was accreted on the district's "capital appreciation" bonds. Third, \$19,237 bond premium was amortized for the current year, which reduced the interest on long-term debt.	(576,154)
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). At year-end, compensated absences earned was less than amounts used.	38,228
Change in Net Assets of Governmental Activities	<u>\$ 2,515,350</u>

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

DUBLIN UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 171,973
Total assets	<u>\$ 171,973</u>
LIABILITIES	
Accounts payable	\$ 3,701
Due to student groups	168,272
Total liabilities	<u>\$ 171,973</u>

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

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Dublin Unified School District was unified on June 21, 1989 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates five elementary, one middle, one high school, and a continuation high school.

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

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 14 to the financial statements. These organizations are: School Excess Liability Fund (SELF) and Alameda County School Insurance Group (ACSIG).

Basis of Presentation - Fund Accounting

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general law of California.

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

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

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Other Non-Major Governmental Funds

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

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

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

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

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

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

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

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 project funds:

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District has only agency funds. 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).

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. 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 purposes 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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Apportionment Deferrals As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves of \$142,661 and revenue limit sources would have been \$1,003,886 overstated.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2003, 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.

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 and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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.

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, 50 years; building improvements, 20 years; equipment, 10 years; vehicles, 8 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.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. The entire liability is reported in the entity wide statements.

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, which is Public Employment Retirement System (PERS) Liability.

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 funds.

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

Fund Balance Reserves and Designations

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

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

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

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

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

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

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

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

NOTE 2 -- CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

Deposits

At year-end, the carrying amounts of the District's deposits were \$25,100 for governmental activities and \$171,973 held in fiduciary funds. The bank balances totaled \$247,195. Of the bank balances, \$100,000 was covered by Federal deposit insurance (insured, risk Category 1) and \$147,195 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

Investments

Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county treasury for its pool. The investments balance as of June 30, 2003 consisted of \$24,018,673 in governmental funds with a fair market value of \$24,112,106.

As Reported

The following summarizes the combination of cash and investments:

	Reported in Governmental Funds	Fiduciary Funds
Deposits	\$ 25,100	\$ 171,973
Investments	24,018,673	-
	<u>\$ 24,043,773</u>	<u>\$ 171,973</u>

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building	Capital Facilities	County School Facilities	Nonmajor Funds	Total
Federal Government						
Categorical aid	\$ 301,105	\$ -	\$ -	\$ -	\$ 24,488	\$ 325,593
State Government						
Apportionment	-	-	-	-	12,719	12,719
Categorical aid	161,924	-	-	-	1,519	163,443
Lottery	109,925	-	-	-	-	109,925
Local Government						
Interest	22,889	19,606	40,998	11,546	7,367	102,406
Other Local Sources	1,803,800	-	83,756	-	4,523	1,892,079
Total	<u>\$ 2,399,643</u>	<u>\$ 19,606</u>	<u>\$ 124,754</u>	<u>\$ 11,546</u>	<u>\$ 50,616</u>	<u>\$ 2,606,165</u>

Long term receivables consist of the Special Education mandated settlement which will be received at a rate of \$16,787 each year for the next eight (8) years.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 143,122,043	\$ -	\$ -	\$ 143,122,043
Construction in Progress	2,781,275	1,267,914	885,278	3,163,911
Total Capital Assets Not Being Depreciated	<u>145,903,318</u>	<u>1,267,914</u>	<u>885,278</u>	<u>146,285,954</u>
Capital Assets being depreciated				
Improvements of Sites	2,376,978	-	-	2,376,978
Buildings	34,833,935	885,278	-	35,719,213
Equipment	702,734	-	-	702,734
Total Capital Assets Being Depreciated	<u>37,913,647</u>	<u>885,278</u>	<u>-</u>	<u>38,798,925</u>
Less Accumulated Depreciation				
Improvements of Sites	1,533,626	213,908	-	1,747,534
Buildings	11,006,001	799,360	-	11,805,361
Equipment	523,549	35,523	-	559,072
Total Accumulated Depreciation	<u>13,063,176</u>	<u>1,048,791</u>	<u>-</u>	<u>14,111,967</u>
Governmental Activities Capital Assets, Net	<u>\$ 170,753,789</u>	<u>\$ 1,104,401</u>	<u>\$ 885,278</u>	<u>\$ 170,972,912</u>

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		
Instruction		\$ 1,013,268
Food services		662
All other general administration		2,984
Plant services		31,877
Total Depreciation Expenses Governmental Activities		<u>\$ 1,048,791</u>

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds are as follows:

Due To	Due From					Total
	General	Building	Capital Facilities	County School Facilities	Nonmajor Governmental	
General	\$ -	\$ 139,641	\$158,607	\$ 8,700	\$ 122,877	\$ 429,825
Building	-	-	-	12,500	-	12,500
Capital Facilities	7,995	81,738	-	-	-	89,733
County School Facilities	-	150,000	-	-	-	150,000
Nonmajor Governmental	646,792	-	552,866	-	-	1,199,658
Total	<u>\$ 654,787</u>	<u>\$ 371,379</u>	<u>\$711,473</u>	<u>\$ 21,200</u>	<u>\$ 122,877</u>	<u>\$ 1,881,716</u>

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

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer From				Total
	General	Building	Capital Facilities	Nonmajor Governmental	
General	\$ -	\$ -	\$ 60,000	\$ 410,835	\$ 470,835
Nonmajor Governmental	361,523	120,355	552,866	-	1,034,744
Total	<u>\$ 361,523</u>	<u>\$ 120,355</u>	<u>\$ 612,866</u>	<u>\$ 410,835</u>	<u>\$ 1,505,579</u>

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Reasons for interfund transfers are as follows:

The General fund transferred to the Deferred Maintenance fund for the district match.	\$ 163,878
The General fund transferred to the Special Reserve (Other) fund for new school construction.	197,645
The Adult Education fund transferred to the General fund for the rental of district's Facility.	443
The Special Reserve (Other) fund transferred to the General fund to cover deficit spending.	407,273
The Building fund transferred to the Deferred Maintenance fund for the district match.	120,355
The Capital Facilities fund transferred to the General fund for the 3% developer fee.	60,000
The Capital Facilities fund transferred to the Special Reserve (Other) fund for the 3% developer fee revenue for prior years.	552,866
The State School Building fund transferred to the General fund for closing the fund	50
The Tax Override fund transferred to the General fund for closing the fund.	627
The Retiree Benefit fund transferred to the General fund for closing the fund.	2,442
Total	<u>\$ 1,505,579</u>

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building	Capital Facilities	County School Facilities	Nonmajor Governmental	Total Governmental	Fiduciary
Vendor payables	\$ 1,368,490	\$ 65,947	\$ 88,298	\$ 23,019	\$ 29,219	\$ 1,574,973	\$ 3,701
State apportionment	1,201,162	-	-	-	-	1,201,162	-
Salaries and benefits	887,215	-	369	3,019	2,093	892,696	-
Total	<u>\$ 3,456,867</u>	<u>\$ 65,947</u>	<u>\$ 88,667</u>	<u>\$ 26,038</u>	<u>\$ 31,312</u>	<u>\$ 3,668,831</u>	<u>\$ 3,701</u>

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General Fund
Federal financial assistance	\$ 162,728
State categorical aid	284,568
Other local	90,172
Total	<u>\$ 537,468</u>

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 – LONG-TERM OBLIGATIONS

Long-Term Debt Summary

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

	Balance			Balance June 30, 2003	Due in One Year
	July 1, 2002	Additions	Deductions		
General obligation bonds	\$ 42,334,538	\$ 712,617	\$ 992,546	\$ 42,054,609	\$ 740,311
Add: Premium on refinancing	-	271,580	19,237	252,343	13,579
Subtotal	42,334,538	984,197	1,011,783	42,306,952	753,890
Accumulated vacation - net	66,334	-	38,228	28,106	-
Other general long-term	67,899	250,000	67,899	250,000	100,000
	<u>\$ 42,468,771</u>	<u>\$ 1,234,197</u>	<u>\$ 1,117,910</u>	<u>\$ 42,585,058</u>	<u>\$ 853,890</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Bonds			Bonds	
			Original Issue	Outstanding July 1, 2002	Change in Accretion	Redeemed	Outstanding June 30, 2003
Current Interest Bonds							
1994	2014	5.40 - 5.837%	\$3,480,000	\$ 2,665,000	\$ -	\$ 150,000	\$ 2,515,000
1994	2019	5.20 - 8.00 %	5,000,000	140,000	-	140,000	-
1999	2013	3.90 - 6.625 %	3,280,000	3,280,000	-	-	3,280,000
2002	2022	4.00 - 4.75 %	22,760,000	22,760,000	-	322,546	22,437,454
			Subtotal	28,845,000	-	612,546	28,232,454
Capital Appreciation Bonds							
1996	2021	3.90 - 6.00%	4,995,219	380,526	18,581	185,000	214,107
1998	2022	4.75 - 5.35 %	4,999,046	6,096,730	319,676	70,000	6,346,406
1999	2023	3.70 - 5.50%	6,023,672	7,012,282	374,360	125,000	7,261,642
			Subtotal	13,489,538	712,617	380,000	13,822,155
			Total	\$42,334,538	\$ 712,617	\$ 992,546	\$ 42,054,609

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Debt Service Requirements to Maturity

Current Interest bonds mature through 2022 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 365,000	\$ 1,257,781	\$ 1,622,781
2005	895,000	1,225,883	2,120,883
2006	995,000	1,183,201	2,178,201
2007	1,130,000	1,137,749	2,267,749
2008	1,370,000	1,084,340	2,454,340
2009-2013	8,685,000	4,340,252	13,025,252
2014-2018	8,680,000	2,483,950	11,163,950
2019-2022	6,112,454	512,295	6,624,749
Total	<u>\$ 28,232,454</u>	<u>\$ 13,225,451</u>	<u>\$ 41,457,905</u>

Capital Appreciation bonds mature through 2024 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 375,311	\$ 107,833	\$ 483,144
2005	101,068	27,158	128,226
2006	141,808	38,988	180,796
2007	158,750	43,646	202,396
2008	173,775	47,776	221,551
2009-2013	785,082	221,312	1,006,394
2014-2018	3,177,886	835,463	4,013,349
2019-2023	5,348,389	1,462,757	6,811,146
2024	618,731	156,421	775,152
	10,880,800	\$ 2,941,354	\$ 13,822,154
Accretions to date	2,941,355		
Total	<u>\$ 13,822,155</u>		

Defeasance of Debt Obligations

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U. S. government securities and placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2003, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to \$6,151,768.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$28,106.

Early Retirement Incentive

The District provides early retirement incentives, in accordance with District policies for programs under STRS. The accumulated future liability for the District at June 30, 2003, amounts to \$250,000.

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building	Capital Facilities	County School Facilities	Nonmajor Governmental	Total
Reserved						
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 25,000
Stores inventory	49,180	-	-	-	12,036	61,216
Prepaid expenditures	11,585	-	-	-	-	11,585
Restricted programs	95,061	-	-	-	-	95,061
Total Reserved	180,826	-	-	-	12,036	192,862
Unreserved						
Designated						
Economic uncertainties	984,019	-	-	-	-	984,019
Other designation	552,227	4,581,218	10,241,033	3,050,913	1,362,149	19,787,540
Total Designated	1,536,246	4,581,218	10,241,033	3,050,913	1,362,149	20,771,559
Undesignated						
Total Unreserved	1,536,246	4,581,218	10,241,033	3,050,913	2,908,624	22,318,034
Total	\$ 1,717,072	\$ 4,581,218	\$ 10,241,033	\$ 3,050,913	\$ 2,920,660	\$ 22,510,896

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with Alameda County School Insurance Group (ACSIG) 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.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Workers' Compensation

For fiscal year 2003, the District participated in the Alameda County School Insurance Group (ACSIG), an insurance purchasing pool. The intent of the ACSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the ACSIG. 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 ACSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participated school districts. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the ACSIG.

Coverage provided by Schools Excess Liability Fund (SELF), and Alameda County Schools Insurance Group (ACSIG) for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Workers' Compensation Program		
Alameda County School Insurance Group (ACSIG)	Workers' Compensation	State Statutory Limit
Property and Liability Program		
North American Insurance	Property	Replacement Cost
United National Insurance	Liability	\$ 1,000,000
Excess Property and Liability Program		
School Excess Liability Fund (SELF)	Excess Property and Liability	\$ 14,000,000

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

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

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 2002-2003 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, 2003, 2002, and 2001, were \$1,467,795, \$1,370,945, and \$1,251,709, respectively, and equal 100 percent of the required contributions for each year.

PERS

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

Funding Policy Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll. The District's contributions to CalPERS for the fiscal year ending June 30, 2003 was \$146,836 and equal 100 percent of the required contributions for the year. There was no required employer contribution for fiscal years ended June 30, 2002 and 2001. The contribution requirements of the plan members are established by State statute.

Tax Deferred Annuity/Social Security

The District also contributes to the APPLE (Accumulation Program for Part-time and Limited Service Employees) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

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 use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.75 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$9,347, which was 3.75 percent of its current year covered payroll. Employees' required and actual contributions matched that of the employer's.

DUBLIN UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 \$795,496 (4.475 percent of salaries subject to STRS) and \$4,760 (0.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in General Fund of these financial statements and are included in final budget amounts in budget comparison schedule for the General Fund.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. There are two administrative suits against the District. Total settlement for these two cases is about \$95,000. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2003.

Arbitrage Liability

The District has issued various long-term debt instruments including general obligation bonds. The Internal Revenue Service requires a rebate of any interest earnings meeting certain criteria. The District has not performed a calculation of the arbitrage rebate for any of the years subject to the arbitrage rules. Therefore, any liability associated with an arbitrage rebate has not been determined and is not included as a liability of the District. Once the calculation has been made and the liability is determined, the District will record the liability.

Other Contingencies

The District is a member of the Student Demographic Information Systems joint powers agency (JPA). Unaudited financial statements of the JPA for the year ended June 30, 2002 reflect a negative ending fund balance of \$1.3 million which includes a remaining liability for the certificates of participation of \$1.5 million. The impact of any amounts due from the District to the JPA to eliminate the deficit fund balance and to provide sufficient cash flow to repay the certificates of participation had not been determined.

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Operating Leases

The District has entered into agreements to lease two relocatable modules and six copiers 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. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2004	\$ 55,960

Construction Commitments

As of June 30, 2003, the District had outstanding commitments of \$137,478 with respect to Frederickson Elementary School modernization. Completion of the project is expected in September 2003.

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

The District is a member of the Schools Excess Liability Fund (SELF) and Alameda County Schools Insurance Group (ACSIG) public entity risk pools. The District pays an annual premium to each entity for its workers' compensation and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Entity	SELF	ACSIG
Purpose	Provides property and liability insurance	Provides workers compensation property and liability insurance
Participants	Various school districts	Various school districts
Governing Board	Representative from some member districts	One representative from each member district

Condensed Audited Financial Information Follows

	June 30, 2002*	June 30, 2002*
Assets	\$ 112,124,000	\$ 19,824,274
Liabilities	64,484,000	14,556,688
Fund Equity	<u>\$ 47,640,000</u>	<u>\$ 5,267,586</u>
Revenues	25,829,000	62,475,475
Expenses	11,023,000	63,809,307
Net Increase in Fund Equity	<u>\$ 14,806,000</u>	<u>\$ (1,333,832)</u>
Payments for the Current Year	<u>\$ 13,288</u>	<u>\$ 338,702</u>

* Most recent audit information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2002, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$3,500,000, which matured on July 2, 2002. On July 2, 2002, the District issued \$3,000,000 Tax and Revenue Anticipation Notes bearing interest at 3 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2003. By May 31, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District had paid off the outstanding balance before June 30, 2003.

DUBLIN UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$5,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield 1.5 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 40 percent of principal be deposited with the Fiscal Agent in January, 2004, 40 percent of principal in April 2004, 20 percent of principal in May 2004, and 100 percent of interest are due by May 2004.

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EVERGREEN SCHOOL DISTRICT

Board of Trustees

Kathy Bowers
President

Carolyn Clark
Clerk

Sylvia Alvarez
Member

Jeff Fischer
Member

Tom Matsumoto
Member

District Administration

Thomas E. Andrade
Superintendent

Maryann Cavallo
Deputy Superintendent

James Crawford
Assistant Superintendent - Business Services

Susan Hanna
Assistant Superintendent - Instruction

Clif Black
Assistant Superintendent - Human Resources

GENERAL AND FINANCIAL INFORMATION

Introduction

The Evergreen School District (the "District") provides educational services to residents of a portion of the City of San Jose, and some unincorporated areas outside of San Jose in Santa Clara County. The District serves a population of approximately 89,753.

The District operates, fourteen elementary schools (including two K-5 elementary schools and twelve K-6 elementary schools) and three middle schools (including two 6-8 middle schools and one 7-8 middle school).

The District's 2003/04 pupil-teacher ratios are 23.6:1 for kindergarten, 19.2:1 for grades 1-3, and 25.6:1 for grades 4-8.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Thomas E. Andrade has served in this capacity since July 2002.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

EVERGREEN SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	11,940
2001/02 ^(b)	12,017
2002/03 ^(b)	12,272
2003/04 ^(c)	12,882
2004/05 ^(c)	13,049

^(a) Includes grades K-8, home and hospital, and special education.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 4, 2004.

Labor Relations

The District employs 639 full-time equivalent certificated and 334 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

EVERGREEN SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of FTE Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	334	October 31, 2006
Evergreen Education Association	659	August 31, 2005

Source: The District.

Investment of District Funds

Substantially all of the District's operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "APPENDIX E — SANTA CLARA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See "GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education" and "— Average Daily Attendance" herein.

EVERGREEN SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$51,224,574	69.82%
2001/02 ^(a)	53,956,423	73.15
2002/03 ^(b)	56,107,024	75.52
2003/04 ^(c)	57,356,653	74.30
2004/05 ^(c)	59,074,127	78.51

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Estimated - Second Interim Report adopted on March 4, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects an increase of three full-time equivalent certificated and no change in the number of full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 2% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to decrease by 2.56% in the 2004/05 fiscal year.

EVERGREEN SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$61,782,923	85.17%
2001/02 ^(a)	65,991,606	85.17
2002/03 ^(b)	70,063,652	88.44
2003/04 ^(c)	72,335,406	85.27
2004/05 ^(c)	70,481,226	89.39

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Estimated - Second Interim Report adopted on March 4, 2004.

Comparative Financial Statements

The following table summarizes the District's revenues, expenditures and fund balances from fiscal year 2000/01 through 2004/05:

EVERGREEN SCHOOL DISTRICT General Fund Revenues, Expenditures And Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources			\$56,107,024	\$57,356,653	\$59,074,127
State Aid	\$13,893,139	\$11,683,081			
Property Taxes	37,331,435	42,273,342			
Federal Revenue	2,454,988	2,670,210	3,325,308	4,096,293	3,525,628
Other State Revenue	14,590,919	12,944,809	11,458,297	12,366,610	9,109,371
Other Local Revenue	2,225,072	1,145,561	3,404,107	3,381,272	3,535,000
Tuition and Transfers	2,875,938	3,041,973	0	0	0
Total Revenues	73,371,491	73,758,976	74,294,736	77,200,828	75,244,126
Expenditures					
Certificated Salaries	40,779,477	42,516,016	43,903,348	44,149,340	42,037,924
Classified Salaries	9,097,686	9,647,168	9,783,208	8,935,008	9,191,792
Employee Benefits	11,905,760	13,828,422	16,377,096	19,251,057	19,251,510
Books and Supplies	4,769,325	4,811,514	3,835,296	7,322,186	3,119,994
Services, Other Operating Expenses	3,896,747	4,749,578	4,461,813	4,509,348	4,541,888
Capital Outlay	832,771	1,233,135	149,780	43,219	30,000
Other Outgo	1,255,729	699,030	713,708	616,497	675,866
Total Expenditures	72,537,495	77,484,863	79,224,250	84,826,656	78,848,974
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	3,000,000	1,400,000	3,600,000	3,400,000	4,033,151
Interfund Transfers Out / Other Uses	(400,000)	(400,000)	0	0	0
Total Other Financing Sources/(Uses)	2,600,000	1,000,000	3,600,000	3,400,000	4,033,151
Excess of Revenues Over (Under) Expenditures	3,433,996	(2,725,887)	(1,329,514)	(4,225,828)	428,303
Beginning Fund Balance	8,590,719	12,024,715	9,298,829	7,969,315	3,743,488
Ending Fund Balance	\$12,024,715	\$ 9,298,828	\$ 7,969,315	\$ 3,743,488	\$ 4,171,791

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 4, 2004.

District Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations On June 30, 2003, the District issued \$10,000,000 tax and revenue anticipation notes due July 1, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see **"EVERGREEN SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."**

Subsequent to the date of the Audited Financial Statements, June 30, 2003, the District issued the General Obligation Bonds, (Election of 1997) Series D in the amount of \$13,000,000 on September 30, 2003 (as described in "Note 17— Subsequent Event" of the Audited Financial Statement, June 30, 2003). See **"EVERGREEN SCHOOL DISTRICT— Excerpts from Audited Financial Statements, June 30, 2003"** herein.

Additionally, subsequent to the date of the Audited Financial Statements, June 30, 2003, the District issued the 2003 General Obligation Refunding Bonds, Series B (the "Refunding Bonds") in the amount of \$9,670,000 on September 30, 2003. The Refunding Bonds defeased the outstanding General Obligation Refunding Bonds, Series 1996.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 2.14 times the principal and interest due on the Notes at maturity. See **"THE NOTES — Security and Sources of Payment"** herein.

EVERGREEN SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$13,726,467
Projected 2004/05 Cash Receipts (Including Note Proceeds)	85,713,391
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(86,214,050)</u>
Balance	\$13,225,808
Note Repayment	\$ 6,179,500
NOTE COVERAGE RATIO	2.14 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see **"THE NOTES — Other District Funds"** herein.

EVERGREEN SCHOOL DISTRICT
Other District Funds

Funds	June 30, 2003, Balance ^(a)	June 30, 2004, Estimated Balance ^(b)	June 30, 2005, Estimated Balance ^(c)
Special Revenue Funds			
Cafeteria	\$ 1,001,149	\$ 1,087,812	\$ 1,097,905
Deferred Maintenance	3,382,213	2,316,593	2,483,449
Subtotal for Special Revenue Funds	4,383,362	3,404,405	3,581,354
Capital Project Funds			
Building	6,205,470	153,009	9,287,851
Capital Facilities	1,154,942	2,499,942	1,787,942
County School Facilities	32,711,022	34,811,022	19,071,022
Subtotal for Capital Project Funds	40,071,434	37,463,973	30,146,815
Total Alternate Liquidity	\$44,454,796	\$40,868,378	\$33,728,169

^(a) Audited Financial Statement.

^(b) Second Interim Report adopted on March 4, 2004.

^(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through April 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes..

EVERGREEN SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Vavrinek, Trine, Day & Co., LLP
 Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
 Evergreen School District
 San Jose, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Evergreen School District (The District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Evergreen School District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note #18 to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 3 through 7 and budgetary comparison information on page 35, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek Trine Day & Co. LLP

San Jose, California
 September 17, 2003

EVERGREEN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

DISTRICT PROFILE

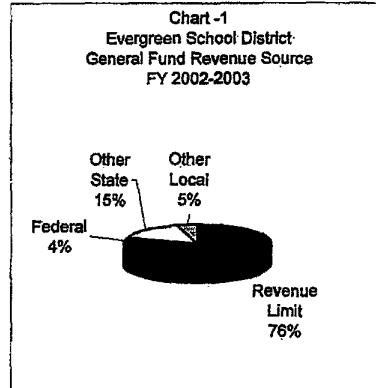
Evergreen School District was formed in 1860 and is one of the oldest school districts in Santa Clara County. The District is located along the Mount Hamilton mountain range in the southeastern part of San Jose and extends on the west to Highway 101 and on the north to Tully Road. It encompasses an area of approximately 32 square miles and has an estimated population of approximately 90,000. The District has fourteen elementary schools and three middle schools. The last elementary school was opened in 2000 and a new elementary school is currently under construction that is scheduled to open in the fall of 2004. The Average Daily Attendance in 2002-03 was 12,272.

Sixteen of our schools have been identified by the California State Department of Education as California Distinguished Schools and several have achieved this recognition multiple times. Ten have also been identified by the United States Department of Education as National Blue Ribbon Schools. Eight schools were eligible to receive funds from the Governor's Performance Award Program for meeting their Academic Performance goals.

FINANCIAL HIGHLIGHTS:

Revenue limit is the largest component of the District's general fund budget. The District received a basic allocation per unit of average daily attendance (ADA) of \$4495.69, which includes a cost of living adjustment (COLA) of \$89.

The general fund also received funds from various State, Federal and other local programs.
(See Chart -1)



2003 RESULTS OF OPERATIONS

The District's general fund expenditures exceeded revenues and transfers in by \$1,329,515, resulting in an ending fund balance of \$7,969,313. Of this amount, \$2,178,462 is undesignated, and \$2,500,000 is designated for economic uncertainties. Our available reserves at June 30, 2003 are \$14,070,805 and include the general fund amounts noted above plus the balance in our special reserve fund of \$9,392,343. By way of comparison, available reserves at June 30, 2002, as adjusted, were \$16,426,749, thus the District used \$2,355,944 of its beginning available reserves, approximately 14%, to fund 02-03 operations.

EVERGREEN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the district-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's general fund budget, both the adopted and final version, with year end actuals.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets*, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the district-wide financial statements and the fund financial statements that explain the relationship (or differences) between them.

EVERGREEN SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

• **Fiduciary funds**—The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were \$86.2 million at June 30, 2003. (See Table - 1). Of this amount, \$0.8 million was a Board-designated unrestricted reserve and \$14.1 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.

Governmental Activities

Charts 2 and 3 provide a breakdown of the general fund expenditures, both by Object code and by Function. As is common with virtually all school districts, the majority of expenditures in the general fund is for salaries and benefits (approximately 88%). From a functional cost standpoint, Chart 3 show that approximately 84.8% of total general fund expenditures goes for instruction and instruction-related activities. The District must spend at least 60% of its total certificated salary component on classroom instruction activities. For the current fiscal year, the District spent approximately 77.7% of certificated salaries on classroom instruction activity.

**Table - 1
Evergreen School District**

Net Assets (in millions of dollars)	
	Governmental Activities
2003	
Current and other assets	\$75.6
Capital assets	100.6
Total Assets	176.1
Current liabilities	10.8
Long-term debt	79.1
Total Liabilities	89.9
Net assets	
Invested in capital assets, net of related debt	25.2
Restricted	48.1
Board designated unrestricted	0.8
Unrestricted	14.1
Total Net Assets	86.2

Note: Totals may not add due to Rounding.

EVERGREEN SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

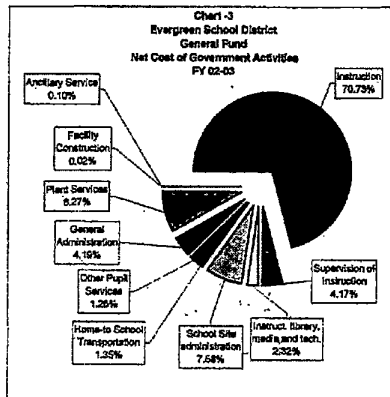
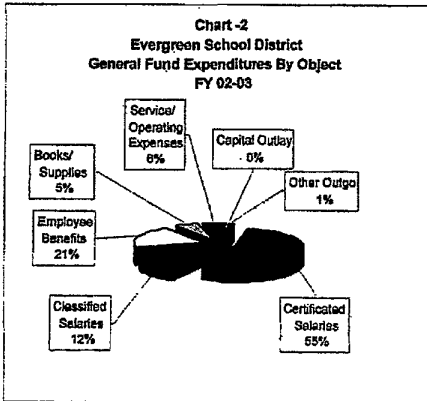
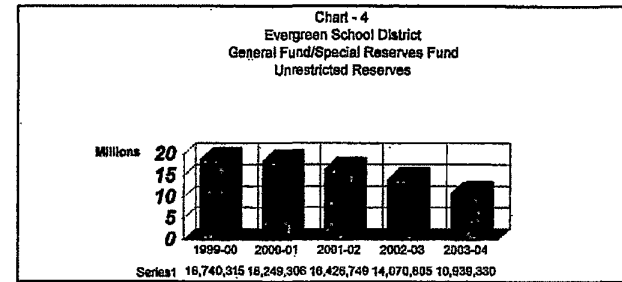
Available Reserves

The Special Reserve fund ended 2002-2003 with a balance of \$9.39 million. When added to the General Fund Unappropriated fund balance of \$2.18 million and the 3% reserve of \$2.5 million, the total available reserve balance is \$14.07 million. In the district-wide statement of net assets, designations of ending fund balance are considered unrestricted, but they are not a component of available reserves.

General Fund Budgetary Highlights

The District has incurred an operating deficit over the last three years which can be seen in the decline of unrestricted reserves on chart-4. The deficit is expected to increase over the future years due to increasing health cost, step and column movement on the salary schedule and zero (0%) cost of living increases in State revenues.

For the 2002-03 school year, the budget verses the actual unrestricted expenditures had a variance of 0.2% and the unrestricted revenues were 0.1%. The difference from the budget to actuals on the unappropriated fund balance was \$86,255 on the total of \$59.9 million unrestricted expenditures. This is a variance of 0.14%.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2003 the District had invested \$126.2 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. (See Table 2) This amount represents a net increase of \$18.2 million from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements).

Capital Facilities Projects

In November of 1989 the voters of the District approved authorization of \$35 million in general obligation bonds that were used for building multipurpose rooms at seven of the oldest schools, expanding library rooms, upgrading fields, removing of asbestos and building a Central Kitchen facility for the student lunch program.

**Table - 2
Evergreen School District
Capital Assets at Year-end
(in millions of dollars)**

	Total School District		Total Changes
	2002	2003	
Land	\$ 21.7	\$ 21.7	0.00%
Buildings & improvements	82.6	100.8	22.03%
Vehicles	3.3	3.3	0.00%
Equipment	0.2	0.2	0.00%
Totals	\$ 108.0	\$ 126.2	16.85%

EVERGREEN SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

The District has issued this entire authorization. The District established a Community Facilities District and in September 1992 issued Special Tax Bonds in the amount of \$7,380,000 that helped fund the construction of Silver Oak Elementary School. In November of 1997, the voters approved a \$60 million general obligation bond for the acquisition, construction and improvement of certain school facilities. As of January 1, 2003, the District had issued \$47 million against this authorization.

The District also participates in the State's Deferred Maintenance Program to upgrade our schools and to maintain a safe environment for our students. School facilities are inspected periodically for modernization planning.

Construction Projects

Current or recent capital projects include:

1. Construction of the District's fifteenth elementary school, Carolyn A. Clark Elementary School.
2. Construction of an eight-classroom addition for Chaboya Middle School.
3. Construction of a Library/Media Center at Ley Va Middle School at an approximate cost of \$2,200,000.
4. Construction of a two-story, 16-classroom wing at Montgomery Elementary School, which will replace 14 existing portable classrooms at a cost of \$2,700,000.

Long-Term Debt

At year-end the District had \$75.2 million in general obligation bonds and other long-term debt of \$6.46 million outstanding -- a decrease of 1.27 percent from last year - as shown in Table - 3. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

- In February 2003 District refinanced \$15.3 million of General Obligation Bonds. The District reduced future interest payments for local property owners. As a result of this refinancing, the District reduced its future debt service payments by approximately \$1.2 million.

- The District plans to issue the remaining \$13 million of General Obligation bonds in September 2003 to pay for the construction cost of the new school.

	Total			
	School District	2002	2003	%
General Obligation Bonds	\$75.70	\$75.20		-0.68%
Mello-Roos Special Tax Bonds	\$6.76	\$6.46		-4.44%
Vested Sick Leave	\$0.14	\$0.00		-100.00%
Capitalized Lease Obligations	\$0.11	\$0.00		-100.00%
Totals	\$82.71	\$81.68		-1.27%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2002-03 fiscal year was impacted by substantial increases in energy costs, step and column movement on the Teachers salary schedule, medical and liability insurance premiums and State budget cuts and the District faces continued budget challenges in 2003-04. The District adjusted 2003-04 expenditures with reductions in administrative and support staff and operating expenses and will continue to make adjustments as needed. Strategies being considered for reducing the anticipated 2003-04 deficit are negotiating with the employee unions for a change of medical insurance plans, going to the voters with a parcel tax proposal and additional transfers from the Special Reserve Fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact James Crawford - Assistant Superintendent, Business Services, Evergreen School District, 3188 Quimby Road, San Jose, CA 95148.

EVERGREEN SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

Assets	Governmental Activities
Deposits and investments	\$ 69,659,789
Receivables	4,577,192
Prepaid expenses	1,164,724
Stores inventories	140,078
Capital assets	126,176,090
Less: Accumulated depreciation	(25,575,225)
Total assets	176,142,648
Liabilities	
Accounts payable	6,752,496
Deferred revenue	1,552,316
Current portion of long-term obligations	2,520,000
Noncurrent portion of long-term obligations	79,125,882
Total liabilities	89,950,694
Net Assets	
Invested in capital assets, net of related debt	25,160,453
Restricted for:	
Debt service	4,278,719
Capital projects	33,865,964
Special revenue	4,383,362
Other activities	3,600,850
Unrestricted	14,902,606
Total net assets	\$ 86,191,954

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

EVERGREEN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 55,452,726	\$ 143,216	\$ 8,291,738	\$ 15,392,441	\$ (31,625,331)
Instruction related activities:					
Supervision of instruction	3,272,341	27,860	2,211,734	-	(1,032,747)
Instructional library, media and technology	1,825,290	-	53,794	-	(1,771,496)
School site administration	5,950,544	-	15,067	-	(5,935,477)
Pupil services:					
Home-to-school transportation	1,061,966	3,524	589,636	-	(468,806)
Food services	2,774,401	1,689,305	1,190,222	-	105,126
All other pupil services	991,487	-	123,949	-	(867,538)
General administration:					
Data processing	422,432	-	9,450	-	(412,982)
All other general administration	2,737,987	742	121,663	-	(2,615,580)
Plant services	6,725,274	-	32,526	-	(6,692,748)
Facility acquisition and construction	266,930	-	12,188	-	(254,742)
Ancillary services	77,893	-	-	-	(77,893)
Interest on long-term debt	4,267,468	-	-	-	(4,267,468)
Other outgo	702,199	2,076	396,661	-	(303,462)
Depreciation (unallocated)	3,823,693	-	-	-	(3,823,693)
Total governmental-type activities	\$ 90,352,631	\$ 1,866,723	\$ 13,048,630	\$ 15,392,441	(60,044,837)
General revenues and subventions:					
Property taxes, levied for general purposes					47,314,237
Property taxes, levied for debt service					5,566,526
Federal and State aid not restricted to specific purposes					14,458,363
Interest and investment earnings					1,539,171
Miscellaneous					3,298,470
Subtotal, general revenues					72,176,767
Change in net assets					12,131,930
Net assets - beginning					74,060,024
Net assets - ending					\$ 86,191,954

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

EVERGREEN SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Special Reserve Non-Capital Fund	Building Funds
ASSETS			
Deposits and investments	\$ 7,902,321	\$ 9,355,058	\$ 8,823,431
Receivables	4,057,955	37,285	43,400
Due from other funds	86,704	-	-
Prepaid expenses	22,924	-	-
Stores inventories	43,235	-	-
Total assets	\$ 12,113,139	\$ 9,392,343	\$ 8,866,831
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,618,222	\$ -	\$ 2,661,361
Due to other funds	-	-	-
Deferred revenue	1,525,604	-	-
Total liabilities	4,143,826	-	2,661,361
Fund Balances:			
Reserved for:			
Stores inventories	43,235	-	-
Other reservations	2,415,815	-	-
Unreserved:			
Designated	3,331,801	9,392,343	6,205,470
Undesignated, reported in:			
General fund	2,178,462	-	-
Debt service funds	-	-	-
Total fund balance	7,969,313	9,392,343	6,205,470
Total Liabilities and Fund Balances	\$ 12,113,139	\$ 9,392,343	\$ 8,866,831

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

EVERGREEN SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 32,571,372	\$ 11,007,607	\$ 69,659,789
139,650	298,902	4,577,192
-	-	86,704
-	-	22,924
-	96,843	140,078
<u>\$ 32,711,022</u>	<u>\$ 11,403,352</u>	<u>\$ 74,486,687</u>
\$ -	\$ 19,988	\$ 5,299,571
-	86,704	86,704
-	26,712	1,552,316
-	133,404	6,938,591
-	96,843	140,078
-	100	2,415,915
32,711,022	5,441,361	57,081,997
-	-	2,178,462
-	5,731,644	5,731,644
<u>32,711,022</u>	<u>11,269,948</u>	<u>67,548,096</u>
<u>\$ 32,711,022</u>	<u>\$ 11,403,352</u>	<u>\$ 74,486,687</u>

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

Total Fund Balance - Governmental Funds		\$ 67,548,096
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	\$126,176,090	
Accumulated depreciation is	<u>(25,575,225)</u>	100,600,865
Expenditures relating to issuance of debt of next fiscal year were recognized on the modified accrual basis, but are capitalized and amortized on the accrual basis		1,141,800
In governmental funds, interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, interest on long-term debt is recognized when it is incurred.		(1,452,925)
Long-term liabilities at year end consist of:		
Bonds payable	75,190,882	
Mello Roos Special Tax Bonds	<u>6,455,000</u>	(81,645,882)
Total Net Assets - Governmental Activities		<u>\$ 86,191,954</u>

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

EVERGREEN SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Special Reserve Non-Capital Fund	Building Fund
REVENUES			
Revenue limit sources	\$ 56,107,025	\$ -	\$ -
Federal sources	3,325,308	-	-
Other state sources	11,458,298	-	-
Other local sources	3,404,107	117,378	256,074
Total Revenues	74,294,738	117,378	256,074
EXPENDITURES			
Current			
Instruction	55,527,369	-	-
Instruction related activities:			
Supervision of instruction	3,272,341	-	-
Instructional library, media and technology	1,825,290	-	-
School site administration	5,952,275	-	-
Pupil Services:			
Home-to school transportation	1,061,966	-	-
Food services	-	-	-
All other pupil services	991,487	-	-
General administration:			
Data processing	422,432	-	-
All other general administration	2,943,483	-	-
Plant services	6,495,563	-	311,044
Facility acquisition and construction	18,339	-	17,854,475
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	78,510,545	-	18,165,519
Excess (deficiency) of revenues over expenditures	(4,215,807)	117,378	(17,909,445)
Other Financing Sources (Uses):			
Transfers in	3,600,000	9,299,386	10,905,352
Transfers out	-	(3,600,000)	-
Other uses	(713,708)	-	-
Net Financing Sources (Uses)	2,886,292	5,699,386	10,905,352
NET CHANGE IN FUND BALANCES	(1,329,515)	5,816,764	(7,004,093)
Fund Balance - Beginning	9,298,828	3,575,579	13,209,563
Fund Balance - Ending	\$ 7,969,313	\$ 9,392,343	\$ 6,205,470

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

EVERGREEN 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, 2003

County School Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 56,107,025
-	1,111,861	4,437,169
15,392,441	139,512	26,990,251
478,346	10,694,211	14,950,116
15,870,787	11,945,584	102,484,561
-	-	55,527,369
-	-	3,272,341
-	-	1,825,290
-	-	5,952,275
-	-	1,061,966
-	2,774,401	2,774,401
-	-	991,487
-	-	422,432
-	-	2,943,483
-	-	6,806,607
-	412,200	18,285,014
-	2,489,626	2,489,626
-	3,767,711	3,767,711
-	9,443,938	106,120,002
15,870,787	2,501,646	(3,635,441)
-	-	23,804,738
-	(20,204,738)	(23,804,738)
-	-	(713,708)
-	(20,204,738)	(713,708)
15,870,787	(17,703,092)	(4,349,149)
16,840,235	28,973,040	71,897,245
\$ 32,711,022	\$ 11,269,948	\$ 67,548,096

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

Total Net Change in Fund Balances - Governmental Funds \$ (4,349,149).

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

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

Depreciation expense	\$ (3,823,693)	
Capital outlays	18,175,791	14,352,098

Repayment of issue costs of bonds is an expenditure in the governmental funds, but it should be recorded as a prepaid expense and amortized on the statement of net assets. (60,095)

Accreted interest is not a expenditure in the governmental funds, but it increases the long term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities. (354,888)

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 paid, 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 paid. (84,774)

Compensated absences are measured by amounts earned during the year in the Statement of Activities. In the Governmental Funds, certain of these items are measured by amounts actually paid. Previously accrued benefits of \$139,112 were paid off during the current fiscal year. 139,112

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

Change in Net Assets of Governmental Activities	2,489,626	
	\$ 12,131,930	

The accompanying notes are an integral part of these financial statements

EVERGREEN SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	Agency Funds
ASSETS	
Deposits and investments	\$ 142,356
Receivables	74,180
Total assets	<u>\$ 216,536</u>
LIABILITIES	
Due to student groups	\$ 216,536
Total liabilities	<u>\$ 216,536</u>

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Evergreen School District was organized in 1860 under the laws of the State of California. The District operates under a locally-elected five member Board form of government and provides educational services to grades K-8 as mandated by the State agencies. The District operates fourteen elementary, and three middle Schools.

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

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two joint powers agencies and one public entity risk pool. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

South Bay Area Schools Insurance Authority
Santa Clara County Schools Insurance Group
East Valley Transportation Agency

Basis of Presentation - Fund Accounting

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose, provided it is expended or transferred according to the general laws of California.

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.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

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

Other Non-Major Governmental Funds

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

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

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

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.

Mello Roos Debt Service Fund The Mello Roos Debt Service Fund is used to account for the interest and redemption of principal of debt.

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:

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).

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category has only agency funds.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Basis of Accounting - Measurement Focus

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

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and 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. 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 function 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.

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

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

EVERGREEN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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

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

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

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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

EVERGREEN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Investments

Investments held at June 30, 2003, 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 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.

Prepaid Expenditures

Prepaid expenditures 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 over the benefiting period.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide statements of net assets and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation of capital assets is computed using 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 statement of net assets.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability in the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable 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 employees subject to a collective bargaining agreement who retire after January 1, 1999. At retirement, each classified employee 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 from current financial resources, are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

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 and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been 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.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Net Assets

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

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

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

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Cash

Cash at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *			Total
	1	2	3	
Cash on hand and in banks	\$ 166,386	\$ -	\$ 252,477	\$ 418,863
Cash in revolving fund	33,614	-	-	33,614
Cash with fiscal agent	-	671,655	-	671,655
Total	\$ 200,000	\$ 671,655	\$ 252,477	\$ 1,124,132

	Governmental	Fiduciary	Total
	Carrying	Carrying	
	Amount	Amount	
Cash on hand and in banks	\$ 254,043	\$ 142,356	\$ 396,399
Cash in revolving fund	15,100	-	15,100
Cash with fiscal agent	671,655	-	671,655
Cash awaiting deposit	71,493	-	71,493
	\$ 1,012,291	\$ 142,356	\$ 1,154,647

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Investments

Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county.

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Reported in Governmental Funds	Fair Value
Uncategorized:		
Deposits with county treasurer	\$ 68,647,498	\$ 68,814,998

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consist of the following:

	Special Reserve		County School			Total	Agency
	General	Other than Capital	Building	Facilities	Nonmajor		
Federal Government							
Categorical aid	\$ 733,556	\$ -	\$ -	\$ -	\$ 193,404	\$ 926,960	\$ -
State Government							
Apportionment	573,964	-	-	-	-	573,964	-
Categorical aid	995,217	-	-	-	-	995,217	-
Lottery	707,422	-	-	-	-	707,422	-
Other state	-	-	-	-	11,931	11,931	-
Local Government							
Interest	58,261	37,285	43,400	139,650	35,797	314,393	-
Other Local Sources	989,535	-	-	-	57,770	1,047,305	74,180
Total	\$ 4,057,955	\$ 37,285	\$ 43,400	\$ 139,650	\$ 298,902	\$ 4,577,192	\$ 74,180

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Balance June 30, 2003
Governmental Activities			
Capital Assets not being depreciated:			
Land	\$ 21,745,913	\$ -	\$ 21,745,913
Capital Assets being depreciated:			
Buildings and Improvements	82,641,809	18,165,078	100,806,887
Furniture and Equipment	3,612,577	10,713	3,623,290
Total Capital Assets being depreciated	86,254,386	18,175,791	104,430,177
Total Capital Assets	108,000,299	18,175,791	126,176,090
Less Accumulated Depreciation:			
Buildings and Improvements	20,830,582	3,580,773	24,411,355
Furniture and Equipment	920,950	242,920	1,163,870
Total Accumulated Depreciation	21,751,532	3,823,693	25,575,225
Governmental Activities Capital Assets, Net	\$ 86,248,767	\$ 14,352,098	\$ 100,600,865

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

The balance of \$86,704 due to the General Fund from the Non-major Governmental Fund resulted from reimbursable expenditures for interfund goods and services provided.

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer from		
	General	Building	Total
Special Reserve - Other	\$ 3,600,000	\$ -	\$ 3,600,000
Nonmajor governmental	-	10,905,352	10,905,352
Total	\$ 3,600,000	\$ 10,905,352	\$ 14,505,352

The Special Reserve Other than Capital Fund transferred to the General Fund to cover the deficit,	\$ 3,600,000
The Capital Facilities Fund transferred to Building Fund to cover cost of construction.	10,905,352
Total	\$ 14,505,352

Equity Transfers

The Special Reserve-Capital Fund transferred to Special Reserve-Other than Capital Fund to close Special Reserve-Capital Fund.	\$ 9,299,386
--	--------------

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building Fund	Nonmajor Governmental	Total
Vendor payables	\$ 2,219,873	\$ 2,661,361	\$ 19,988	\$ 4,901,222
State apportionment	117,458	-	-	117,458
Salaries and benefits	280,891	-	-	280,891
Total	\$ 2,618,222	\$ 2,661,361	\$ 19,988	\$ 5,299,571

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 474,710	\$ -	\$ 474,710
State categorical aid	937,318	-	937,318
Other local	113,576	26,712	140,288
Total	\$ 1,525,604	\$ 26,712	\$ 1,552,316

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds	\$75,704,099	\$ 15,654,888	\$ 16,168,105	\$75,190,882	\$2,200,000
Postemployment benefits	139,112	-	139,112	-	-
Capital leases	114,626	-	114,626	-	-
Mello Roos Bonds	6,760,000	-	305,000	6,455,000	320,000
	\$82,717,837	\$ 15,654,888	\$ 16,726,843	\$81,645,882	\$2,520,000

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2002	Issued	Redeemed	Bonds Outstanding June 30, 2003
1993	9/1/17	4.7-7.0%	\$3,000,000	\$ 2,455,000	\$ -	\$ 2,455,000	\$ -
1993	9/1/08	5.479%	1,999,624	3,164,068	174,037	3,338,105	-
1996	9/1/15	3.9-5.5%	14,075,000	10,575,000	-	675,000	9,900,000
1997	9/1/21	5.0-8.0%	10,000,000	8,630,000	-	8,475,000	155,000
1998	9/1/22	4.15-7.125%	6,000,000	4,965,000	-	180,000	4,785,000
1998	9/1/22	4.15-7.125%	4,000,000	3,165,000	-	80,000	3,085,000
1999	9/1/23	4.0%-6.0%	15,000,000	14,675,000	-	265,000	14,410,000
2000	9/1/25	5.702%	26,000,000	25,875,000	-	700,000	25,175,000
2000	9/1/13	5.322%	1,999,701	2,200,031	180,851	-	2,380,882
2003	9/1/21	2.0-4.7%	15,300,000	-	15,300,000	-	15,300,000
				\$75,704,099	\$ 15,654,888	\$ 16,168,105	\$75,190,882

Debt Service Requirements to Maturity

The bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 2,200,000	\$ 4,039,706	\$ 6,239,706
2005	2,000,000	3,735,706	5,735,706
2006	2,605,000	3,405,589	6,010,589
2007	2,695,000	3,282,371	5,977,371
2008	2,800,000	3,158,647	5,958,647
2009-2013	13,559,701	15,515,554	29,075,255
2014-2018	17,860,000	10,512,662	28,372,662
2019-2023	22,945,000	5,406,201	28,351,201
2024-2028	8,145,000	423,807	8,568,807
Total	\$74,809,701	\$49,480,243	\$124,289,944
Accretion To Date		381,181	
Grant Total		\$75,190,882	

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Mello-Roos Special Tax Bonds

The Bonds mature through 2011, as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 320,000	\$ 276,262	\$ 596,262
2005	330,000	263,587	593,587
2006	345,000	250,252	595,252
2007	360,000	236,152	596,152
2008	370,000	221,552	591,552
2009-2013	2,105,000	855,769	2,960,769
2014-2018	2,625,000	322,203	2,947,203
Total	\$ 6,455,000	\$ 2,425,777	\$ 8,880,777

NOTE 10 – FUND BALANCES

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

	General	Special Reserve		County School Facilities	Nonmajor Governmental	Total
		Non-Capital Fund	Building Fund			
Reserved						
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 100	\$ 15,100
Stores inventory	43,235	-	-	-	96,843	140,078
Prepaid expenditures	22,924	-	-	-	-	22,924
Restricted programs	2,377,891	-	-	-	-	2,377,891
Total Reserved	2,459,050	-	-	-	96,943	2,555,993
Unreserved						
Designated						
Economic uncertainties	2,500,000	-	-	-	832,320	3,332,320
Other designation	831,801	9,392,343	6,205,470	32,711,022	4,609,041	53,749,677
Total Designated	3,331,801	9,392,343	6,205,470	32,711,022	5,441,361	57,081,997
Undesignated	2,178,462	-	-	-	5,731,644	7,910,106
Total Unreserved	5,510,263	9,392,343	6,205,470	32,711,022	11,173,005	64,992,103
Total	\$ 7,969,313	\$ 9,392,343	\$ 6,205,470	\$ 32,711,022	\$ 11,269,948	\$ 67,548,096

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District has in place an early retirement program whereby an employee who has given fifteen years of full time service is eligible to retire and receive postemployment health insurance benefits paid by the District until attainment of age 65. This program is not the same as the Early Retirement Incentive Program pursuant to Education Code 22714 and 44929 whereby the service credit to eligible employee is increased by two years. A total of 75 employees were enrolled in this program at June 30, 2003. The outstanding benefit portion totaled \$2,340,244 at June 30, 2003. This amount was calculated based on the number of retirees receiving benefits multiplied by the yearly benefit amount in effect at June 30, 2003.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with South Bay Area Schools Insurance Authority 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 2003, the District participated in the Santa Clara County Schools Insurance Group JPA, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group JPA. 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 Santa Clara County Schools Insurance Group JPA. 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." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group JPA. Participation in the Santa Clara County Schools Insurance Group JPA is limited to districts that can meet the Santa Clara County Schools Insurance Group JPA selection criteria. The firm of Keenan & Associates provides administrative, cost control, and actuarial services to the GRP.

Coverage provided by SBASIA and SCCSQG for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Workers' Compensation Program		
Santa Clara County Schools Insurance Group	Workers' Compensation	State Statutory Limit
School Excess Liability Fund	Excess Workers' Compensation	\$ 14,000,000
South Bay Area Schools Insurance Authority	Property and Liability	Limits set by JPA

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Employee Medical Benefits

The District has contracted with the Kaiser and Union Labor Life to provide employee medical and surgical benefits. The rates are set through an annual calculation process.

NOTE 13 – 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 2002-2003 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, 2003, 2002, and 2001, were \$3,579,602, \$3,339,401, and \$3,210,323, 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.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS, including both employee and employer amounts, for the fiscal years ending June 30, 2003, 2002, and 2001, were \$881,570, \$591,309, and \$534,235, respectively, and equal 100 percent of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to STRS.

Tax Deferred Annuity/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 use the Tax deferred Annuity (TDA) as its alternative plan. 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 the pension plan.

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 \$1,965,607 (4.475 percent of salaries subject to STRS) and \$ 8,903 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 14 - 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, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Modernization at various sites	\$ 10,171,038	04-05 fiscal year

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the South Bay Areas School Insurance Authority (SBASIA), the Santa Clara County School Insurance Group (SCCSIG), and East Valley Transportation Agency (EVT). The District pays an annual premium to SBASIA and SCCSIG for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

EVERGREEN SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

A. <u>Entity</u>	SBASIA	SCCSIG	EVT
B. <u>Condensed Audited Financial Information Follows</u>	June 30, 2002	June 30, 2002	June 30, 2002
Assets	\$ 4,810,272	\$ 22,002,395	\$ 604,858
Liabilities	(1,751,671)	(9,351,369)	335,834
Fund Equity	\$ 3,058,601	\$ 12,651,026	\$ 269,024
Revenues	1,326,357	20,818,065	3,182,730
Expenses	(1,218,075)	(22,865,293)	(3,182,730)
Net Increase (Decrease) in Fund Equity	\$ 108,282	\$ (2,047,228)	\$ -
C. <u>Payments for the Current Year</u>	\$ 274,145	\$ 949,838	\$ 677,122

NOTE 16 - DEFEASED DEBT

In January 2003, the District advanced refunded \$14,098,105 in outstanding general obligation bonds plus accrued interest, originally issued in 1993 and 1997. The District issued \$15,300,000 in new bonds with an average interest rate of three percent to defease the old debt.

As a result of the refunding, the District reduced its total debt service requirements by \$1,025,726, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$890,810.

NOTE 17 - SUBSEQUENT EVENT

District issued \$10,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield 1.75 percent interest. The notes were sold to supplement cash flow.

District issued \$13,000,000 of General Obligation Bonds, (Election of 1997) series D, in September, 2003. the bonds mature in September 2019, and yield 2.25-4.5 percent interest.

EVERGREEN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 18 – DEFERRED STATE APPORTIONMENTS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB)X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home to School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves in the general fund of \$986,484.

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FREMONT UNION HIGH SCHOOL DISTRICT

BOARD OF TRUSTEES

Nancy Newton
President

Avie Katz
Clerk

Homer Tong
Member

Barbara Nunes
Member

Kathryn Ho
Member

DISTRICT ADMINISTRATION

Dr. Steve Rowley
Superintendent

Michael Raffetto
*Chief Business Officer/
Associate Superintendent*

GENERAL AND FINANCIAL INFORMATION

Introduction

The Fremont Union High School District (the "District") provides educational services, to residents of most of the Cities of Sunnyvale and Cupertino and portions of the Cities of San Jose, Los Altos, Saratoga and Santa Clara in Santa Clara County. The District serves a population of approximately 209,349.

The District operates five high schools (9-12), one alternative school (9-12) and one adult school.

The District's 2003/04 pupil-teacher ratios are 32.5:1 for grades 9-12.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Superintendent. Dr. Steve Rowley has served in this capacity since July 2002.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

FREMONT UNION HIGH SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	8,632
2001/02 ^(b)	8,646
2002/03 ^(b)	8,835
2003/04 ^(c)	8,857
2004/05 ^(c)	8,860

^(a) Includes grades K-12, special education, home and hospital and community education; does not include adult education.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 2, 2004.

Labor Relations

The District employs 480 full-time equivalent certificated and 255 full-time equivalent classified employees. There are three formal bargaining organizations that are active in the District.

FREMONT UNION HIGH SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	260	June 30, 2003 ^(a)
Fremont Education Association	458	June 19, 2003 ^(a)
Fremont Management Association	75	N/A

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "APPENDIX E — SANTA CLARA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Because the District's property tax revenue exceed its calculated revenue limit, the District is considered a basic aid district. Basic aid districts receive no additional State aid beyond a basic aid entitlement of \$120 per A.D.A. Under current law, basic aid districts retain all local property tax revenues, and, as a result, receive more revenue limit income than is their revenue limit entitlement. The District expects a 0% increase in revenues from property taxes in fiscal year 2004/05. See "GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education," "GENERAL SCHOOL DISTRICT INFORMATION — Basic Aid Districts" and "— Average Daily Attendance" herein.

FREMONT UNION HIGH SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$48,423,633	71.24%
2001/02 ^(a)	54,155,444	77.09
2002/03 ^(b)	57,228,847	80.16
2003/04 ^(c)	56,493,190	82.61
2004/05 ^(c)	56,449,503	81.82

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statements

^(c) The District.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

For fiscal year 2004/05, the District has separately prepared a preliminary budget and a proposed list of budget reductions. The preliminary budget considers revenues at projected levels and the cost of funding the current academic program into the 2004/05 fiscal year. The proposed list of budget reductions are in the amount of \$4,655,000. In the coming weeks, the District will approve the budget reductions or revenue enhancements in such amount (whether from the proposed list or not) and incorporate such adjustments into a final budget.

The District's preliminary budget assumes an increase of sixteen full-time equivalent certificated employees and no change in the number of full-time equivalent classified employees for the 2004/05 fiscal year. The District assumes a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Based on the preliminary budget, overall salaries and benefits are projected to increase by 6.64% in the 2004/05 fiscal year.

FREMONT UNION HIGH SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$52,843,877	79.87%
2001/02 ^(a)	59,607,966	80.43
2002/03 ^(b)	59,098,923	83.52
2003/04 ^(c)	59,286,985	83.40
2004/05 ^(c)	63,226,254	83.67

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) The District.

Comparative Financial Statements

The following table summarizes the District's revenues, expenditures and fund balances from fiscal year 2000/01 to 2004/05.

FREMONT UNION HIGH SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources			\$57,228,847	\$56,493,190	\$56,449,503
State Aid	\$ 1,475,675	\$ 1,470,331			
Property Taxes	46,947,958	52,685,113			
Federal Revenue	1,753,485	2,129,403	2,415,071	2,441,809	2,482,867
Other State Revenue	11,192,385	7,885,914	5,985,678	4,263,286	4,914,384
Other Local Revenue	3,325,107	2,681,608	5,760,371	5,187,855	5,149,006
Other	3,275,620	3,400,327	0	0	0
Total Revenues	67,970,230	70,252,696	71,389,968	68,386,140	68,995,760
Expenditures					
Certificated Salaries	32,261,219	35,767,988	35,133,366	35,242,074	37,221,172
Classified Salaries	9,693,546	11,274,036	10,763,103	10,950,381	11,346,762
Employee Benefits	10,889,112	12,565,942	13,202,454	13,094,530	14,658,320
Books and Supplies	2,821,301	3,449,593	2,675,352	3,204,794	3,315,513
Services, Other Operating Expenses	7,081,226	8,599,576	8,436,108	8,744,361	8,990,599
Capital Outlay	71,355	1,758,215	129,485	33,381	221,899
Other Outgo	3,346,391	694,833	420,001	(182,335)	(186,421)
Total Expenditures	66,164,150	74,110,183	70,759,869	71,087,186	75,567,844
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	1,239,689	2,606,937	1,408,859	2,032,797	2,239,866
Interfund Transfers Out / Other Uses	(558,348)	(864,653)	(550,085)	(1,178,586)	(762,812)
Total Other Financing Sources/(Uses)	681,341	1,742,284	858,774	854,211	1,477,054
Planned Budget Adjustments	0	0	0	0	4,655,000
Excess of Revenues Over (Under) Expenditures	2,487,421	(2,115,203)	1,488,872	(1,846,835)	(5,095,030)
Beginning Fund Balance	2,815,939	5,303,360	3,233,249	4,722,121	2,875,286
Ending Fund Balance	\$ 5,303,360	\$ 3,188,157	\$ 4,722,121	\$ 2,875,286	\$ 2,435,256

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) The District.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$9,000,000 in tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District secured and payable from general fund revenues received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "**FREMONT UNION HIGH SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003.**"

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.15 times the principal and interest due on the Notes at maturity. See "**THE NOTES — Security and Sources of Payment**" herein.

FREMONT UNION HIGH SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 1,375,285
Projected 2004/05 Cash Receipts (Including Note Proceeds)	82,019,834
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(72,175,656)</u>
Balance	\$11,219,463
Note Repayment	\$ 9,784,208
NOTE COVERAGE RATIO	1.15 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "**THE NOTES — Other District Funds**" herein.

**FREMONT UNION HIGH SCHOOL DISTRICT
Other District Funds**

Funds	June 30, 2003, Balance ^(a)	June 30, 2004, Estimated Balance ^(b)	June 30, 2005, Estimated Balance ^(c)
Special Revenue Funds			
Adult Education	\$ 1,154,170	\$ 1,452,072	\$ 1,895,287
Child Development	0	0	0
Deferred Maintenance	1,436,335	0	24,657
Retiree Benefits	4,268,138	1,355,480	1,159,735
Subtotal for Special Revenue Funds	6,858,643	4,680,663	4,641,302
		7,488,215	7,720,981
Capital Project Funds			
Building	16,103,676	4,857,916	5,335,499
Capital Facilities	2,547	56,561	73,126
County School Facilities	25,117,722	7,546,583	7,644,497
Subtotal for Capital Project Funds	41,223,945	12,461,060	13,053,122
Total Alternate Liquidity	\$48,082,588	\$19,949,275	\$20,774,103

^(a) Audited Financial Statement.

^(b) The District.

^(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

District: Fremont Union High School District
Tax and Revenue Anticipation Notes

EXHIBIT I
ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash													
Receipts													
Revenue Limit: Property Tax	0	0	0	4,839,580	4,180,689	15,444,448	6,243,025	200,000	4,000,000	15,000,000	3,000,000	2,485,448	
Revenue Limit: State Aid	59,531	74,506	59,572	59,572	59,572	59,572	477,948	60,000	(120,000)	(120,000)	(120,000)	49,727	
Other Receipts	2,401,038	887,277	2,639,021	1,373,993	676,110	311,723	1,429,512	816,949	800,000	1,000,000	1,000,000	3,254,728	
Note Proceeds	9,049,230	0	0	0	0	0	0	0	0	0	0	85,395	
Total Receipts													
Disbursements													
Salaries and Benefits	1,668,326	1,923,454	5,128,436	5,238,318	4,970,906	6,947,484	5,280,593	5,400,000	5,150,000	5,800,000	5,150,000	5,129,468	
Other Disbursements	1,540,002	735,042	1,849,936	1,454,183	1,032,183	889,495	699,098	1,032,898	900,000	800,000	1,000,000	3,075,908	
Note Payment Pledge	0	0	0	0	0	0	3,600,000	0	0	3,600,000	1,934,625	0	
Total Disbursements													
Net Increase/Decrease							(2)						
Ending Cash													

EXHIBIT II
PROJECTED CASHFLOW
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash													
Receipts													
Revenue Limit: Property Tax	0	0	0	5,000,000	4,000,000	15,000,000	6,000,000	400,000	4,000,000	15,000,000	4,000,000	1,949,503	
Revenue Limit: State Aid	50,000	100,000	50,000	50,000	50,000	50,000	400,000	50,000	(100,000)	(100,000)	(100,000)	100,000	
Other Receipts	2,200,000	1,000,000	2,000,000	1,300,000	700,000	400,000	1,400,000	800,000	800,000	1,000,000	1,200,000	3,486,123	
Note Proceeds	9,630,860	0	0	0	0	0	0	0	0	0	0	153,348	
Total Receipts													
Disbursements													
Salaries and Benefits	1,800,000	2,200,000	5,250,000	5,250,000	4,850,000	5,650,000	5,250,000	5,250,000	5,300,000	6,100,000	5,300,000	5,326,254	
Other Disbursements	1,600,000	1,200,000	2,000,000	1,400,000	1,200,000	900,000	900,000	1,100,000	800,000	800,000	1,000,000	1,749,402	
Note Payment Pledge	0	0	0	0	0	0	3,800,000	0	0	3,800,000	2,184,208	0	
Total Disbursements													
Net Increase/Decrease							9						

FREMONT UNION HIGH SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Vavrinek, Trine, Day & Co., LLP
 Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
 Fremont Union High School District
 Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont Union High School District (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont Union High School District, as of June 30, 2003, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Note 2 to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

As discussed in Note 19 to the financial statements, the District recognized certain deferred state apportionments as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 45 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP
 Pleasanton, California
 November 14, 2003



FREMONT UNION HIGH SCHOOL DISTRICT

Cupertino, Fremont, Homestead, Lynbrook, Monta Vista High Schools and Adult/Community Education

Stephen R. Rowley, Ph.D., Superintendent of Schools

FREMONT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

This section of Fremont Union High School District's (FUHSD) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is the first year that Fremont Union High School District is presenting financial statements in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34. Therefore, certain data is not available for the fiscal year ended June 30, 2002, for comparative analysis. Comparative analysis will be presented in future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Fremont Union High 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 capital assets) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

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

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

The *Fiduciary Activities* are agency funds. Agency funds only report a statement of net asset and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The financial statements also include notes that explain some of the information in the statements and provide detailed data. The statements are followed by a section of required supplementary budget information that further explains and supports the financial statements.

The Primary unit of the government is the Fremont Union High School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The voters of the FUHSD community approved a \$144 million General Obligation Bond on April 14, 1998. The FUHSD community continues to actively support its students by providing needed funding to finance the acquisition, repair, construction, and modernization of classrooms and school facilities, including repair and replacement of deteriorating electrical, heating, and plumbing systems to comply with current safety standards; the renovation of bathrooms; the replacement of worn roofs; and to otherwise improve health and safety conditions and educational opportunities. The first series of bonds in the amount of \$40 million was issued on July 1, 1998, followed by the second series issued on November 1, 2000, in the amount of \$60 million. The last series, amounting to \$44 million, was issued on July 1, 2002. An independent Bond Oversight Committee will continue to monitor ongoing bond expenditures.

A fixed amount per student called the "revenue limit", established by the state legislature determines the level of funding for California schools. In the event that a school district's property tax revenue exceeds its calculated revenue limit entitlement, that school retains all of its property tax revenue and State apportionments to that district are limited to the minimum "basic aid" amount of \$120 per Average Daily Attendance (ADA) set forth in the State Constitution. Such districts are commonly known as "Basic Aid Districts". Being a basic aid district, property taxes are FUHSD's primary income source for the unrestricted general fund. For fiscal year ending June 30, 2003, the revenue limit sources account for 80% of the general fund revenues. Other state revenues such as special education allocations, class size reduction funds, lottery income and grants account for 8% of general fund revenues. Federal funds account for 3%, while local revenue sources including gifts account for 9% of revenues.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

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

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

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

BOARD OF TRUSTEES: Kathryn Ho, Avie Katz, Nancy A. Newton, Barbara F. Nunes, Homer H.C. Tong

FREMONT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

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

Governmental activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, 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, 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. California Departments 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 in results between the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

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

FREMONT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$69.66 million for the fiscal year ended June 30, 2003. Of this amount, \$3.21 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

<u>(Amounts in millions)</u>		
Current and other assets		\$ 72.90
Capital assets		150.38
	Total Assets	\$ 223.28
Current liabilities		17.03
Long-term liabilities		136.59
	Total Liabilities	\$ 153.62
Net assets		
Invested in capital assets, net of related debts		30.88
Restricted		35.57
Unrestricted		3.21
	Total Net Assets	\$ 69.66

FREMONT UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

The \$3.21 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 \$3.21 million left. Although listed as unrestricted for purposes of this report, the \$3.21 million net assets are committed to various programs of the school district.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

TABLE 2

<u>REVENUES</u>	
Program revenues:	
Charges for services	\$ 2.57
Operating grants and contributions	14.33
Capital grants and contributions	0.19
General revenues:	
Federal and state sources	2.41
Property taxes	63.43
Other General Revenue	10.92
TOTAL REVENUES	\$ 93.85
<u>EXPENSES</u>	
Instruction	\$ 48.10
Instruction-related services	11.30
Pupil services	5.90
General administration	5.93
Plant services	7.67
Facility acquisition and construction	1.43
Ancillary services	0.07
Enterprise services	1.23
Interest on long-term debt	6.93
Other outgo	0.53
TOTAL EXPENSES	\$ 89.09
NET CHANGE IN ASSETS	\$ 4.76

FREMONT UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$89.09 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was \$63.4 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions (\$17.09 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.12 million in state revenue limit sources, State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost of each of the District's eight largest functions and each function's net cost. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3

	<u>(Amts in millions)</u>
Instruction	\$ 39.70
Instruction-related services:	
Supervision of instruction	1.17
Instructional library, media and technology	1.22
School administration	7.41
Pupil Services:	
Home-to-school transportation	0.48
Food services	0.35
All other pupil services	2.53
General administration:	
Data processing	0.07
All other general administration	4.31
Plant services	6.86
Facility acquisition and construction	0.35
Ancillary services	0.07
Enterprise services	1.23
Interest on long-term debt	6.93
Other outgo	(0.68)
TOTAL EXPENDITURES	\$ 72.00

**FREMONT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$57.66 million, which is an increase of \$2.51 million from last year.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$1.53 million to \$4.72 million.
- b. The Building, Capital Facilities and County School Facilities funds showed an increase from \$40.95 million to \$41.22 million.
- c. Our non-major governmental funds balance increased from \$11.01 million to \$11.72 million.

General Fund Budgetary Highlights

The Education Code requires that all school districts adopt a budget by July 1, and then twice a year submit to their County Offices of Education interim financial reports. This first interim report reflects the status of district finances as of October 31 and January 31. Year-end actuals are submitted by September 15.

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 17, 2003. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 45.

Significant revenue and expenditure revisions to the 2002-03 budgets were made. This is primarily due to prior year grants being carried over as well as new federal, state and local grants and local gift and donations being budgeted.

**FREMONT UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$150.37 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and depreciation) of \$45.16 millions from last year.

TABLE 4

(Amounts in millions)	Governmental Activities
Land	\$ 1.91
Construction in progress	72.01
Buildings and improvements	77.51
Furniture and equipment	1.60
Total Assets	153.03
Less Accumulated Depreciation	(2.66)
Totals	<u>\$ 150.37</u>

This years additions of \$46.49 million included school modernization of \$46.43 million, and additions to equipment of \$0.06 million. We present more information about our capital assets in Note 5 to the financial statements.

Long-Term Obligations

At the end of this year, the District had \$134.82 million in bonds outstanding versus \$92.63 million last year, an increase of 45% percent. Long-term obligations consisted of:

TABLE 5

(Amounts in millions)	Governmental Activities
General obligation bonds	\$ 134.82
Compensated Absences	0.99
Other General Long term Debt	0.77
Totals	<u>\$ 136.58</u>

The District's general obligation bond rating is AAA (based on Moody's, Insured Bonds). The State limits the amount of general obligation debt that the District can issue. The District's outstanding general obligation bond debt of \$134.82 million is below this limit.

FREMONT UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Other obligations include compensated absences payable and arbitrage liability. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

In addition to the liabilities shown in Table 5, the District has an estimated liability of \$5,136,000 for post-employment benefits. This liability has not been included in the long-term liabilities, which is consistent with generally accepted accounting principles for this type of liability. The District has funded this liability through its Retiree Benefits Fund, which had a designated fund balance of \$4,268,000 at June 30, 2003.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the development of the District's Adopted Budget for the 2003-2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Loss of \$120/ada basic aid guarantee.
2. Secured taxes will grow by 4% and unsecured will be 20% less compared to FY 2002-03
3. Unrestricted lottery will be at \$113/ada and restricted lottery at \$12/ada.
4. Supplemental grant (technology) will be \$241,000 less than FY 2002-03.
5. State funding of deferred maintenance will be reduced by \$215,000.
6. Special Education and transportation revenues will remain the same as FY 2002-03.
7. Loss of additional \$707,000 from other State unrestricted sources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the office of the Associate Superintendent, Business Services, at Fremont Union High School District, 589 W. Fremont Avenue, Sunnyvale, California, (408) 522-2210.

FREMONT UNION HIGH SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets	
Deposits and investments	\$ 67,395,946
Receivables	5,327,599
Prepaid expenses	126,879
Stores inventories	53,240
Capital assets	153,019,825
Less: Accumulated depreciation	(2,648,041)
Total assets	<u>223,275,448</u>
Liabilities	
Overdrafts	91,446
Accounts payable	6,052,957
Deferred revenue	368,261
Claims liability	159,355
Current loans	10,360,000
Current portion of long-term obligations	1,687,429
Noncurrent portion of long-term obligations	134,897,069
Total liabilities	<u>153,616,517</u>
Net Assets	
Invested in capital assets, net of related debt	30,878,031
Restricted for:	
Debt service	2,630,513
Capital projects	25,120,269
Restricted programs	958,896
Special revenues	6,804,203
Self insurance	51,478
Unrestricted	3,215,541
Total net assets	<u>\$ 69,658,931</u>

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

FREMONT UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 48,099,579	\$ 214,528	\$ 7,097,662	\$ 191,323	\$ (39,696,066)
Instruction related activities:					
Supervision of instruction	1,781,896	44,227	570,021	-	(1,167,648)
Instructional library, media and technology	1,564,404	-	343,969	-	(1,220,435)
School site administration	7,958,835	41	548,443	-	(7,410,351)
Pupil services:					
Home-to-school transportation	839,026	-	357,429	-	(481,597)
Food services	2,048,441	1,587,879	108,818	-	(351,744)
All other pupil services	3,013,489	8,660	476,825	-	(2,528,004)
General administration:					
Data processing	610,370	-	542,142	-	(68,228)
All other general administration	5,314,845	16,821	984,979	-	(4,313,045)
Plant services	7,667,928	690,103	122,363	-	(6,855,462)
Facility acquisition and construction	1,429,812	-	1,077,237	-	(352,575)
Ancillary services	72,182	-	-	-	(72,182)
Enterprise services	1,225,429	-	-	-	(1,225,429)
Interest on long-term debt	6,931,965	-	-	-	(6,931,965)
Other (ouigo)	528,804	3,850	1,200,072	-	675,118
Total governmental-type activities	\$ 89,087,005	\$ 2,566,109	\$ 14,329,960	\$ 191,323	(71,999,613)
General revenues and subventions:					
Property taxes, levied for general purposes					55,583,071
Property taxes, levied for debt service					7,851,066
Taxes levied for other specific purposes					593
Federal and State aid not restricted to specific purposes					2,409,510
Interest and investment earnings					706,245
Miscellaneous					10,212,842
Subtotal, general revenues					76,763,327
Change in net assets					4,763,714
Net assets - beginning					64,895,217
Net assets - ending					\$ 69,658,931

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

FREMONT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS				
Deposits and investments	\$ 12,257,411	\$ 12,043,394	\$ 490,594	\$ 30,463,880
Receivables	3,836,996	564,046	1,953	133,842
Due from other funds	1,924,207	6,004,999	5,480,000	-
Prepaid expenses	3,401	-	-	-
Stores inventories	-	-	-	-
Total assets	\$ 18,022,015	\$ 18,612,439	\$ 5,972,547	\$ 30,597,722
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ -	\$ -
Accounts payable	2,402,051	1,117,902	-	-
Due to other funds	338,619	1,299,250	5,970,000	5,480,000
Current loan	10,360,000	-	-	-
Deferred revenue	199,225	91,611	-	-
Total liabilities	13,299,895	2,508,763	5,970,000	5,480,000
Fund Balances:				
Reserved for:				
Stores inventories	-	-	-	-
Other reservations	832,456	450,000	-	-
Unreserved:				
Designated	3,524,231	9,505,704	2,547	25,117,722
Undesignated, reported in:				
General fund	365,433	-	-	-
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital projects funds	-	6,147,972	-	-
Total fund balance	4,722,120	16,103,676	2,547	25,117,722
Total Liabilities and Fund Balances	\$ 18,022,015	\$ 18,612,439	\$ 5,972,547	\$ 30,597,722

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

FREMONT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Non Major Governmental Funds	Total Governmental Funds
\$ 12,088,998	\$ 67,344,277
291,406	4,828,243
175,637	13,584,843
-	3,401
53,240	53,240
<u>\$ 12,609,281</u>	<u>\$ 85,814,004</u>
\$ 91,446	\$ 91,446
133,137	3,653,090
590,646	13,678,515
-	10,360,000
77,425	368,261
<u>892,654</u>	<u>28,151,312</u>
53,240	53,240
1,200	1,283,656
6,857,893	45,008,097
-	365,433
(53,690)	(53,690)
4,857,984	4,857,984
-	6,147,972
<u>11,716,627</u>	<u>57,662,692</u>
<u>\$ 12,609,281</u>	<u>\$ 85,814,004</u>

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

Total Fund Balance - Governmental Funds	\$ 57,662,692
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	\$ 153,019,825
Accumulated depreciation is	<u>(2,648,041)</u>
	150,371,784
Debt issuance costs are expensed in the governmental funds. On the government-wide statements, they are deferred and amortized over the life of the related debt.	(3,000)
Expenditures relating to issuance of debt of the next fiscal year were recognized on modified accrual basis, but should not be recognized on accrual basis.	75,000
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(2,227,471)
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.	312,946
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	51,478
Long-term liabilities at year end consist of:	
Bonds payable	134,825,000
Compensated absences	987,069
Other general long-term debt	<u>772,429</u>
	(136,584,498)
Total Net Assets - Governmental Activities	<u>\$ 69,658,931</u>

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

FREMONT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES				
Revenue limit sources	\$ 57,228,848	\$ -	\$ -	\$ -
Federal sources	2,415,071	-	-	-
Other state sources	7,610,828	-	-	191,323
Other local sources	5,760,371	3,842,777	297,056	702,575
Total Revenues	73,015,118	3,842,777	297,056	893,898
EXPENDITURES				
Current				
Instruction	45,507,811	-	-	-
Instruction related activities:				
Supervision of instruction	1,454,806	-	-	-
Instructional library, media and technology	1,453,754	-	-	-
School site administration	6,474,750	-	-	-
Pupil Services:				
Home-to school transportation	822,099	-	-	-
Food services	321	-	-	-
All other pupil services	2,951,768	-	-	-
General administration:				
Data processing	595,435	-	-	-
All other general administration	4,920,347	-	-	-
Plant services	7,085,194	201,043	-	-
Facility acquisition and construction	62,596	40,442,609	5,971,785	871,000
Ancillary services	70,873	-	-	-
Enterprise services	-	-	-	-
Other uses	604,434	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	335,742	-	-	-
Total Expenditures	72,339,930	40,643,652	5,971,785	871,000
Excess (deficiency) of revenues over expenditures	675,188	(36,800,875)	(5,674,729)	22,898
Other Financing Sources (Uses):				
Transfers in	1,275,630	-	5,480,000	-
Other sources	133,230	43,925,000	-	-
Transfers out	(550,085)	(1,200,000)	-	(5,480,000)
Net Financing Sources (Uses)	858,775	42,725,000	5,480,000	(5,480,000)
NET CHANGE IN FUND BALANCES	1,533,963	5,924,125	(194,729)	(5,457,102)
Fund Balance - Beginning	3,188,157	10,179,551	197,276	30,574,824
Fund Balance - Ending	\$ 4,722,120	\$ 16,103,676	\$ 2,547	\$ 25,117,722

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

FREMONT UNION HIGH 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, 2003

Non Major Governmental Funds	Total Governmental Funds
\$ 2,259,288	\$ 59,488,136
215,013	2,630,084
229,792	8,031,943
13,185,609	23,788,388
<u>15,889,702</u>	<u>93,938,551</u>
1,766,876	47,274,687
259,217	1,714,023
76,878	1,530,632
1,293,457	7,768,207
-	822,099
2,008,336	2,008,657
-	2,951,768
-	595,435
265,256	5,185,603
318,883	7,605,120
500,000	47,847,990
-	70,873
1,203,204	1,203,204
-	604,434
1,805,000	1,805,000
6,062,585	6,398,327
<u>15,559,692</u>	<u>135,386,059</u>
330,010	(41,447,508)
376,553	7,132,183
-	44,058,230
-	(7,230,085)
376,553	43,960,328
706,563	2,512,820
11,010,064	55,149,872
<u>\$ 11,716,627</u>	<u>\$ 57,662,692</u>

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:
Total Net Change in Fund Balances - Governmental Funds

\$ 2,512,820

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

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

Depreciation expense	\$ (1,313,799)	
Capital outlays	<u>46,490,794</u>	45,176,995

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (18,908)

Amortization of bond premium is an expenditure in the governmental funds, but it should be recorded as prepaid expense and amortized on the statement of net assets. (3,000)

The increase in liability for compensated absences is not recorded in the governmental funds, but is reported in the government-wide statements. (173,935)

Revenue related to the Special Education mandate settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets. (38,924)

Proceeds received from Sale of Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities. (43,925,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 1,805,000

Repayment of arbitrage rebate liabilities are 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. 111,266

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result. (641,904)

An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net loss of the internal service fund is reported with governmental activities. (40,696)

Change in Net Assets of Governmental Activities \$ 4,763,714

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

FREMONT UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Self-Insurance Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 51,669
Receivables	186,410
Due from other funds	169,302
Prepaid expenses	51,478
Total Current Assets	458,859
LIABILITIES	
Current Liabilities	
Accounts payable	172,396
Due to other funds	75,630
Claims liabilities	159,355
Total Current Liabilities	407,381
NET ASSETS	
Unrestricted	51,478
Total Net Assets	\$ 51,478

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

FREMONT UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Self-Insurance Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 1,573,296
Operating transfer in	173,532
Total Operating Revenues	1,746,828
OPERATING EXPENSES	
Other operating cost	1,703,288
Operating transfer out	75,630
Total Operating Expenses	1,778,918
Operating Loss	(32,090)
NONOPERATING EXPENSES	
Interest expense	(8,606)
Net Loss	(40,696)
Total Net Assets - Beginning	92,174
Total Net Assets - Ending	\$ 51,478

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

FREMONT UNION HIGH SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

	Governmental Activities - Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,387,214
Cash received from assessments made to other funds	529,168
Cash payments for insurance claims	(1,708,977)
Cash payments to suppliers for goods and services	(166,122)
Net Cash Provided from Operating Activities	<u>41,283</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest expenses	<u>(8,614)</u>
Net increase in cash and cash equivalents	32,669
Cash and cash equivalents - Beginning	19,000
Cash and cash equivalents - Ending	<u>\$ 51,669</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	\$ (32,090)
Changes in assets and liabilities:	
Receivables	(186,082)
Due from other fund	355,636
Prepaid expenses	40,695
Accrued liabilities	66,187
Due to other fund	75,630
Deficit in cash balances	(278,693)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 41,283</u>

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

FREMONT UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	Agency Funds
ASSETS	
Deposits and investments	\$ 1,148,396
Total assets	<u>\$ 1,148,396</u>
LIABILITIES	
Due to student groups	\$ 1,148,396
Total liabilities	<u>\$ 1,148,396</u>

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

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Fremont Union High School District was established in 1925 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9-12 as mandated by the State and Federal agencies. The District operates five high schools, one alternative high school, one adult school, and one independent study school.

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 Fremont Union High School District, this includes general operations, food service, and student related activities of the District.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agencies and two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

- Institute of Computer Technology
- Northern California Regional Liability Excess Fund
- Schools Excess Liability Fund

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Capital 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:

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

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

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

Other Non-Major Governmental Funds

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

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

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

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

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

Retiree Benefits Fund The Retiree Benefits Fund exists to account separately for restricted moneys from salary reduction agreements or contributions for employees' retirement benefit payments or both.

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.

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

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. 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 statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between direct expenses and program revenues of the District for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Certain grants received before the eligibility requirements are met and 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.

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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. The fair value of donated commodities used during the year has not been reported in the operating statement. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2003, 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.

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.

Prepaid Expenditures

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

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$10,000. 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.

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the governmental-wide. 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, 50 years; equipment, 5 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 employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

Current Loans

Current loans consist of amounts outstanding at June 30, 2003 for Tax Revenue Anticipation Notes. Those notes were issued as short term obligations to provide cash flow needs for the Districts. This liability is offset with cash deposits with the fiscal agent, which have been set aside to repay the notes.

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 in full from current financial resources are reported as obligations of the funds.

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

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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, unrealized gains of investments and cash in county treasury, and other purposes.

Net Assets

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Interfund Activity

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

Estimates

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

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

NOTE 2 -- CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules -- Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

Deposits

Cash at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 413,807	\$ 909,421	\$ 1,323,228
Cash in revolving fund	13,259	-	13,259
Cash with fiscal agent	4,012	-	4,012
Total	<u>\$ 431,078</u>	<u>\$ 909,421</u>	<u>\$ 1,340,499</u>

	Governmental Carrying Amount	Proprietary Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 33,577	\$ -	\$ 1,148,396	\$ 1,181,973
Cash in revolving fund	16,200	-	-	16,200
Cash with fiscal agent	-	6,500	-	6,500
Cash awaiting deposit	351,914	-	-	351,914
	<u>\$ 401,691</u>	<u>\$ 6,500</u>	<u>\$ 1,148,396</u>	<u>\$ 1,556,587</u>

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the district's name. Deposits with the County Treasurer and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are recorded at cost and not adjusted to fair value, as the overall impact is not material.

The investments at June 30, 2003 had reported and fair values as follows:

	Reported in Governmental Funds	Reported in Proprietary Fund	Carrying Value	Fair Value
Uncategorized:				
Deposits with county treasurer	\$ 66,942,586	\$ 45,169	\$ 66,987,755	\$ 67,151,205
Less: deficit cash	(91,446)	-	(91,446)	(91,669)
	<u>\$ 66,851,140</u>	<u>\$ 45,169</u>	<u>\$ 66,896,309</u>	<u>\$ 67,059,536</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building Fund	Capital Facilities Fund	County School Facilities	Nonmajor Funds	Total	Proprietary
Federal Government							
Categorical aid	\$ 1,048,168	\$ -	\$ -	\$ -	\$ 51,227	\$ 1,099,395	\$ -
State Government							
Apportionment	161,869	-	-	-	157,211	319,080	-
Categorical aid	866,298	-	-	-	-	866,298	-
Lottery	577,229	-	-	-	-	577,229	-
Other state	-	-	-	-	1,269	1,269	-
Local Government							
Interest	69,326	101,035	1,953	133,842	31,561	337,717	328
Other Local Sources	1,114,106	463,011	-	-	50,138	1,627,255	186,082
Total	<u>\$ 3,836,996</u>	<u>\$ 564,046</u>	<u>\$ 1,953</u>	<u>\$ 133,842</u>	<u>\$ 291,406</u>	<u>\$ 4,828,243</u>	<u>\$ 186,410</u>

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Related Party Receivable

In 2002, the District entered into an employment agreement with an officer of the District, which included an interest-free loan for personal housing. The loan is not to exceed \$450,000, and is payable on July 24, 2009. Pursuant to this agreement, the District has a note receivable of \$450,000 as of June 30, 2003, which is secured by a deed of trust and is included in the Building Fund's Other Local Sources.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 1,909,025	\$ -	\$ -	\$ 1,909,025
Construction in Progress	39,488,659	32,517,190	-	72,005,849
Total Capital Assets not being depreciated	41,397,684	32,517,190	-	73,914,874
Capital Assets being depreciated:				
Buildings and Improvements	63,597,872	13,913,281	-	77,511,153
Furniture and Equipment	1,600,939	60,323	67,464	1,593,798
Total Capital Assets being depreciated	65,198,811	13,973,604	67,464	79,104,951
Total Capital Assets	106,596,495	46,490,794	67,464	153,019,825
Less Accumulated Depreciation:				
Buildings and Improvements	652,815	1,154,325	-	1,807,140
Furniture and Equipment	729,983	159,474	48,556	840,901
Total Accumulated Depreciation	1,382,798	1,313,799	48,556	2,648,041
Governmental Activities Capital Assets, Net	\$ 105,213,697	\$ 45,176,995	\$ 18,908	\$ 150,371,784

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 873,241
Supervision of instruction	31,661
Instructional library, media, and technology	28,273
School site administration	143,492
Home-to-school transportation	15,186
Food services	37,103
All other pupil services	54,524
Data processing	10,998
All other general administration	95,787
Enterprise	22,225
Ancillary Services	1,309
Total Depreciation Expenses Governmental Activities	\$ 1,313,799

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Payables/Receivables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds, and proprietary fund are as follows:

	Due From					
	General	Building	Capital Facilities	Nonmajor Governmental	Proprietary	Total
General	\$ -	\$ 34,999	\$ -	\$ 134,318	\$ 169,302	\$ 338,619
Building	1,258,667	-	-	40,583	-	1,299,250
Capital Facilities	-	5,970,000	-	-	-	5,970,000
County School Facilities	-	-	5,480,000	-	-	5,480,000
Nonmajor governmental	589,910	-	-	736	-	590,646
Proprietary	75,630	-	-	-	-	75,630
Total	\$ 1,924,207	\$ 6,004,999	\$ 5,480,000	\$ 175,637	\$ 169,302	\$ 13,754,145

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

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer from				
	General	Capital Facilities	Nonmajor Governmental	Proprietary	Total
General	\$ -	\$ -	\$ 376,553	\$ 173,532	\$ 550,085
Building	1,200,000	-	-	-	1,200,000
County School Facilities	-	5,480,000	-	-	5,480,000
Proprietary	75,630	-	-	-	75,630
Total	\$ 1,275,630	\$ 5,480,000	\$ 376,553	\$ 173,532	\$ 7,305,715

The General fund transferred lottery dollars and tutorial fees to the Adult Education fund.	\$ 48,003
The General fund transferred to the Cafeteria fund for support.	328,550
The General fund transferred to the Self-Insurance fund for support.	173,532
The Building fund transferred lease revenues to the General fund.	1,200,000
The County School Facilities fund transferred expenditures to the Capital Facilities fund.	5,480,000
The Self-Insurance fund transferred to the General fund for excess in-district premiums.	75,630
Total	\$ 7,305,715

The Capital Facilities fund received \$5,480,000 from the County School Facilities fund for the purpose of funding expenditures for capital outlay related to facilities expansion. The Capital Facilities fund will repay the County School Facilities fund from future receipts of impact fees.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building	Nonmajor		Proprietary
			Governmental	Total	
Vendor payables	\$ 1,507,326	\$ 1,117,178	\$ 50,897	\$ 2,675,401	\$ 172,396
Salaries and benefits	793,989	724	78,502	873,215	-
Other significant payables	99,706	-	-	99,706	-
Other payables	1,030	-	3,738	4,768	-
Total	\$ 2,402,051	\$ 1,117,902	\$ 133,137	\$ 3,653,090	\$ 172,396

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	Building	Nonmajor	
			Governmental	Total
Federal financial assistance	\$ 172,705	\$ -	\$ 3,938	\$ 176,643
State categorical aid	2,681	-	14,024	16,705
Other local	23,839	91,611	59,463	174,913
Total	\$ 199,225	\$ 91,611	\$ 77,425	\$ 368,261

NOTE 9 - LONG-TERM LIABILITIES

Long-Term Liabilities Summary

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

	Balance			Balance	
	July 1, 2002	Additions	Deductions	June 30, 2003	Due in One Year
General obligation bonds	\$92,630,000	\$44,000,000	\$ 1,805,000	\$ 134,825,000	\$ 915,000
Compensated absences	813,134	173,935	-	987,069	-
Arbitrage liability	883,695	-	111,266	772,429	772,429
	<u>\$94,326,829</u>	<u>\$44,173,935</u>	<u>\$ 1,916,266</u>	<u>\$ 136,584,498</u>	<u>\$ 1,687,429</u>

Payments on the General obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Compensated absences will be paid by the fund for which the employee worked. Payments on the arbitrage liability is made by the Building Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2003
				Outstanding July 1, 2002	Issued	Redeemed	
7-1-98	9-1-22	4.1-7.0%	\$40,000,000	\$33,800,000	\$ -	\$ 1,200,000	\$ 32,600,000
11-1-00	9-1-25	4.5-12.0%	60,000,000	58,830,000	-	605,000	58,225,000
7-1-02	9-1-26	3.125-5.0%	44,000,000	-	44,000,000	-	44,000,000
				<u>\$92,630,000</u>	<u>\$44,000,000</u>	<u>\$ 1,805,000</u>	<u>\$ 134,825,000</u>

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Debt Service Requirements to Maturity

The bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 915,000	\$ 6,663,756	\$ 7,578,756
2005	1,830,000	6,612,960	8,442,960
2006	2,015,000	6,545,491	8,560,491
2007	2,390,000	6,467,449	8,857,449
2008	3,005,000	6,361,171	9,366,171
2009-2013	21,760,000	29,024,289	50,784,289
2014-2018	28,825,000	22,784,825	51,609,825
2019-2023	37,005,000	14,436,625	51,441,625
2024-2028	37,080,000	3,906,062	40,986,062
Total	<u>\$ 134,825,000</u>	<u>\$ 102,802,628</u>	<u>\$ 237,627,628</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$987,069.

Arbitrage liability

This liability represents the excess interest income earned by the District from the proceeds of its general obligation bond issue over the current amount allowed by IRS regulations. The excess interest earned must be rebated to the government no later than 5 years from the date of issuance. Additional calculations will be required annually to update the actual amount of the liability due. The recorded liability covers the period through July 16, 2003. The District must make payment by September 2003. The liability amount is reflected as a component of designated fund balance in the building fund.

NOTE 10 – POST-EMPLOYMENT BENEFITS

The District makes available retirement health benefits to eligible employees. Annually, the District transfers to the Retiree Benefits Fund the full cost of retiree health benefits for the previous year's retirees. The projection is not actuarially determined and is based on the actual benefit costs for current participants only. At June 30, 2003, there were 164 retirees participating, and the Plan's net assets available for future benefit payments were \$4,268,138. For the year ended June 30, 2003, the district had \$1,203,204 in expenditures for post-retirement health care benefits. The outstanding benefits portion totaled \$5,135,809 at June 30, 2003. This amount was calculated based on the number of retirees receiving benefits multiplied by the yearly benefit amount in effect at June 30, 2003.

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

In accordance with the Fremont Education Association contract agreement, the District shall make available to eligible retiring certificated members certain retirement options. The eligibility requirements for all retirement options are: a candidate must have a minimum of ten (10) years of service (minimum 75 percent duty days) in the District, must be at least fifty-five (55) years of age; and must be receiving a retirement allowance from the State Employee Retirement System. The retiring employee has the option of five years of fully paid health benefits for the retiree and spouse or the option of working to earn up to \$9,000 per year for five years and, if desired, paying for five years of health benefits.

In accordance with the California School Employees Association contract agreement, the District shall make available to eligible retiring classified members certain retirement options. The eligibility requirements for all retirement options are: a candidate must have a minimum of ten (10) years of service (minimum 75 percent duty days) in the District in classified service; must be at least fifty-five (55) years of age; and must be receiving a retirement allowance from the Public Employees Retirement System. The retiring employee is eligible for five years of fully paid health benefits for retiree and spouse.

In accordance with the Board policy manual, the District shall make available to eligible retiring supervisory and confidential employees certain retirement options. The eligibility requirements for all retirement options are: a candidate must have a minimum of ten (10) years of consecutive service (minimum 75 percent duty days) in the District and be at least fifty-five (55) years of age. The qualified supervisory or confidential employees may select one of two options. The first option is to receive health benefits totaling \$33,000 over a period not to exceed ten (10) years from the date of retirement with no more than \$6,600 contributed in a fiscal year. The second option is to receive eighty percent (80 percent) of the \$6,600 annually available for health benefits for no more than five (5) years or until the retiree's sixty-fifth (65th) birthday.

In accordance with the Board policy manual, the District shall make available to qualified management team employees certain retirement options. The eligibility requirements for all retirement options are: a candidate must have a minimum of five (5) years of administrative service (minimum 75 percent duty days) in the District, of which the three prior to retirement must be served as an administrator, and must be at least fifty-five (55) years of age. The qualified management team employee may select one of two options. The first option is to receive health benefits totaling \$33,000 over a period not to exceed ten (10) years from the date of retirement with no more than \$6,600 contributed in a fiscal year. The second option is to receive eighty percent (80 percent) of the \$6,600 annually available for health benefits for no more than five (5) years or until the retiree's sixty-fifth (65th) birthday. With Board approval, participants may work 22 days per year for a maximum of five (5) years, for and additional five (5) years of fully paid health benefits for retiree and spouse.

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 11 – FUND BALANCES

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

	General	Building	Capital Facilities	County School Facilities	Nonmajor Governmental	Total
Reserved						
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 1,200	\$ 16,200
Stores inventory	-	-	-	-	53,240	53,240
Prepaid expenditures	3,401	-	-	-	-	3,401
Restricted programs	814,055	-	-	-	-	814,055
Other receivable	-	450,000	-	-	-	450,000
Total Reserved	832,456	450,000	-	-	54,440	1,336,896
Unreserved						
Designated						
Economic uncertainties	2,139,299	-	-	-	1,129,125	3,268,424
Other designation	1,384,932	9,505,704	2,547	25,117,722	5,728,768	41,739,673
Total Designated	3,524,231	9,505,704	2,547	25,117,722	6,857,893	45,008,097
Undesignated	365,433	6,147,972	-	-	4,804,294	11,317,699
Total Unreserved	3,889,664	15,653,676	2,547	25,117,722	11,662,187	56,325,796
Total	\$ 4,722,120	\$ 16,103,676	\$ 2,547	\$ 25,117,722	\$ 11,716,627	\$ 57,662,692

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District participated in the Northern California Regional Liability Excess Fund public entity risk pool for excess liability 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

The District participates in the State Compensation Insurance Fund for the workers' compensation coverage. Coverage provided by the State Compensation Insurance Fund for workers' compensation is as follows:

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Insurance Program / Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u> State Compensation Insurance Fund	Workers' Compensation	State of California Statutory Limits
<u>Property and Liability Program</u> SAFER	Property and Liability	\$ 144,750,000,000
ReLiEF	Property and Liability Boiler & Machinery	\$ 10,250,000 \$ 25,000,000
SELF	Property and Liability	\$ 10,000,000
Hartford	Crime	\$ 2,000,000

Claims Liabilities

The District records an estimated liability for Workers' Compensation claims filed prior to March 1, 1996. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The Self-Insurance fund establishes a liability for both reported and unreported events prior to March 1, 1996, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 1998, to June 30, 2003:

Liability Balance, July 1, 2001	\$ 206,525
Claims and changes in estimates	1,048,552
Claims payments	<u>1,090,033</u>
Liability Balance, July 1, 2002	165,044
Claims and changes in estimates	826,399
Claims payments	<u>832,088</u>
Liability Balance, July 1, 2003	<u>\$ 159,355</u>
Assets available to pay claims at June 30, 2003	<u>\$ 210,833</u>

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 13 - 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 2002-2003 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, 2003, 2002, and 2001, were \$2,993,946, \$2,760,820, and \$2,641,323, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

effective with the January 2000 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$1,083,146, \$639,249, and \$566,639, respectively, and equal 100 percent of the required contributions for each year. The payments noted above represent employee contribution amounts paid by the District on behalf of their employees.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to STRS.

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 \$1,659,715 (4.475 percent of salaries subject to STRS) and \$11,237 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements.

NOTE 14 - 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, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

Internal Revenue Service Audit

The Internal Revenue Service is in the process of conducting an audit of the District's issuance of Tax and Revenue Anticipation Notes in 2000. In the opinion of management, it is not likely that there will be a material adverse effect on the overall financial position of the District at June 30, 2003 as a result of this audit.

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Cupertino High new science Package A and Package B	\$ 406,787	May 2004
Cupertino High gym and locker	1,814,084	June 2004
Cupertino High auditorium and fieldhouse	762,507	May 2004
Fremont High cafeteria (phase I) and main gym (phase II)	182,385	March 2004
Fremont High main gym roof	55,500	June 2004
Fremont High courtyard beautification	244,610	June 2004
Fremont High main building phase 1C	1,508,347	July 2004
Fremont High art building	671,355	July 2004
Fremont High bleachers building B	33,000	March 2004
Fremont High library	238,500	March 2004
Homestead High bid package 4	351,313	June 2004
Homestead High bid package 5	530,188	June 2004
Homestead High bid package 8	1,794,084	August 2004
Homestead High bid package 9	234,608	March 2004
Lynbrook High wings 00, 30, 50, 60	550,000	March 2004
Lynbrook High new fieldhouse, gym and cove buildings	658,027	March 2004
Lynbrook High cogeneration	195,000	July 2004
Monta Vista High site utilities and buildings 5, 6, 7	500,000	June 2004
Monta Vista High gym and classrooms	1,690,555	June 2004
Monta Vista buildings 11, 12, 13, VAPA	700,000	June 2004
Monta Vista High tennis courts	60,000	March 2004
Monta Vista High pool	14,500	June 2005
Site restoration - various sites	98,985	March 2004
Cupertino and Lynbrook High cafeteria	997,000	June 2004
Cupertino and Homestead High aquatic complex	480,116	March 2004
Cupertino and Lynbrook High lockers	136,000	January 2004
	<u>\$ 14,907,451</u>	

FREMONT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

**NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER
AUTHORITIES**

The District is a member of the Institute of Computer Technology (ICT) joint powers authority (JPA), the Northern California Regional Liability Excess Fund and the Schools Excess Liability Fund public entity risk pool. The relationships between the District, the pools and the JPA are such that they are not component units of the District for financial reporting purposes.

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

A. Entity	Schools Excess Liability Fund	Northern California Regional Liability Excess Fund	Institute of Computer Technology
B. Purpose	Provide excess insurance	Property and liability insurance	Supplemental computer education
C. Participants	Other California school districts	Various school districts and county offices	Various school districts and county offices
D. Governing Board		One representative member from each district	One representative member from each district

E. Condensed Audited Financial Information Follows

	June 30, 2002*	June 30, 2002*	June 30, 2002*
Assets	\$ 112,124	\$ 22,106,566	\$ 9,193,439
Liabilities	64,484	15,267,217	638,937
Fund Equity	<u>\$ 47,640</u>	<u>\$ 6,839,349</u>	<u>\$ 8,554,502</u>
Revenues	25,829	19,767,657	9,793,698
Expenses	11,023	16,644,047	12,924,201
Net Increase (Decrease) in Fund Equity	<u>\$ 14,806</u>	<u>\$ 3,123,610</u>	<u>\$ (3,130,503)</u>

F. Payments for the Current Year	<u>\$ 9,923</u>	<u>\$ 327,393</u>	<u>\$ -</u>
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* Most recent information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

FREMONT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2002, the District had Tax and Revenue Anticipation Notes outstanding of \$10,360,000 which matured on July 2, 2002. On July 2, 2002, the District issued \$10,360,000 Tax and Revenue Anticipation Notes bearing interest at 2.99 percent. Interest and principal were due and payable on June, 2003. By May, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$9,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004 and yield 1.50 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 beginning January 31, 2004, until 100 percent of principal and interest due is on account on June 30, 2004.

NOTE 18 - FACILITIES LEASES

The District has several lease agreements for the lease of unused school facilities. The minimum lease revenue to be received based upon existing rates and options to renew, and including only those terms known to be guaranteed, is shown below.

<u>Year Ending June 30,</u>	<u>Minimum Lease Revenue</u>
2004	\$ 2,592,497
2005	2,670,272
2006	2,750,380
2007	2,832,891
2008	2,917,878
Total	<u>\$ 13,763,919</u>

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NOTE 19 - DEFERRED STATE APPORTIONMENTS

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves of \$287,931.

LOS ALTOS SCHOOL DISTRICT

BOARD OF TRUSTEES

Victor Reid, III
President

Margot Harrigan
Clerk

Duane Roberts
Member

Jay Thomas
Member

Bill Cooper
Member

DISTRICT ADMINISTRATION

Dr. Margaret Gratiot
Superintendent

Randall Kenyon
Assistant Superintendent, Business Services

GENERAL AND FINANCIAL INFORMATION

Introduction

The Los Altos School District (the "District") provides educational services to residents of the Cities of Los Altos and Los Altos Hills, the southern portion of Mountain View, and certain unincorporated areas between the Cities of Los Altos and Palo Alto in Santa Clara County. The District serves a population of approximately 38,872.

The District operates six elementary schools (K - 6) and two middle schools (7 -8).

The District's 2003/04 pupil-teacher ratios are 19:1 for grades K-3, 27:1 for grades 4-6, and 26:1 for grades 7-8.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. Margaret Gratiot has served in this capacity since 1987.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

LOS ALTOS SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	3,823
2001/02 ^(b)	3,933
2002/03 ^(b)	3,943
2003/04 ^(c)	3,978
2004/05	3,873

^(a) Includes grades K-8, home and hospital, special education, and extended year program.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 15, 2004.

Labor Relations

The District employs 232 full-time equivalent certificated and 119 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

LOS ALTOS SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	119	June 30, 2003 ^(a)
Los Altos Teachers Association	243	June 30, 2004

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX E — SANTA CLARA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District may become a basic aid district in fiscal year 2003/04, and is expecting to be a basic aid district in fiscal year 2004/05. See "**GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education**" and "**— Average Daily Attendance**" herein.

**LOS ALTOS SCHOOL DISTRICT
Revenue Limit Income**

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$16,445,172	57.98%
2001/02 ^(a)	17,365,728	56.87
2002/03 ^(a)	17,989,980	62.30
2003/04 ^(b)	18,055,690	55.47
2004/05 ^{(b)(c)}	18,420,007	55.95

- (a) Audited Financial Statements.
(b) Second Interim Report adopted on March 15, 2004.
(c) Assumes Basic Aid Status.
-

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects a reduction of four full-time equivalent certificated and a reduction of ten full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 1.27% in the 2004/05 fiscal year.

**LOS ALTOS SCHOOL DISTRICT
Salaries and Benefits**

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$24,040,110	88.17%
2001/02 ^(a)	26,871,452	86.97
2002/03 ^(a)	26,207,863	86.73
2003/04 ^(b)	27,778,365	83.46
2004/05 ^(b)	28,130,824	86.23

- (a) Audited Financial Statements.
(b) Second Interim Report adopted on March 15, 2004.
-

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

LOS ALTOS SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^(a)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(b)
Revenues					
Revenue Limit Sources:				\$18,055,690	\$18,420,007
State Aid	\$ 902,998	\$ 874,513	\$ 691,476		
Property Taxes	15,542,174	16,491,215	17,298,504		
Federal Revenue	485,634	549,983	565,591	963,515	981,243
Other State Revenue	5,280,525	4,254,711	3,469,580	3,164,958	3,114,636
Other Local Revenue	6,154,585	8,364,403	6,853,513	10,367,859	10,405,078
Total Revenues	28,365,916	30,534,825	28,878,664	32,552,022	32,920,964
Expenditures					
Certificated Salaries	14,882,144	16,291,203	15,930,727	16,637,987	16,790,831
Classified Salaries	4,329,901	4,730,173	4,239,552	4,518,449	4,627,577
Employee Benefits	4,828,065	5,850,076	6,037,584	6,621,929	6,712,416
Books and Supplies	724,626	999,142	685,546	1,072,591	1,068,440
Services, Other Operating Expenses	2,356,618	2,677,186	3,029,870	4,030,509	3,954,479
Capital Outlay	144,305	345,649	293,493	396,385	391,138
Other Outgo	0	2,917	0	5,000	5,000
Other	0	0	0	0	(925,000)
Total Expenditures	27,265,659	30,896,346	30,216,771	33,282,852	32,624,881
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	0	1,568,183	331,008	0	0
Interfund Transfers Out / Other Uses	(135,714)	(29,489)	0	0	0
Total Other Financing Sources/(Uses)	(135,714)	1,538,694	331,008	0	0
Excess of Revenues Over (Under) Expenditures	964,543	1,177,173	(1,007,099)	(730,829)	296,083
Beginning Fund Balance	595,475	1,560,493	2,737,666	1,730,567	999,738
Prior Year Adjustments	475	0	0	0	0
Ending Fund Balance	\$1,560,493	\$2,737,666	\$1,730,567	\$ 999,738	\$1,295,821

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 15, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$6,000,000 in tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District secured and payable from general fund revenues received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "**LOS ALTOS SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003.**"

Subsequent to the date of the Audited Financial Statements, June 30, 2003, the District issued 2003 General Obligation Bonds (Election of 1998, Series C) in the amount of \$8,000,000 on October 1, 2003.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.22 times the principal and interest due on the Notes at maturity. See "**THE NOTES — Security and Sources of Payment**" herein.

LOS ALTOS SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 1,122,168
Projected 2004/05 Cash Receipts (Including Note Proceeds)	39,357,943
Less: Projected 2004/05 Disbursements (Excluding Note Proceeds)	<u>(32,624,881)</u>
Balance	\$ 7,855,230
Note Repayment	\$ 6,436,979
NOTE COVERAGE RATIO	1.22 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "**THE NOTES — Other District Funds**" herein.

LOS ALTOS SCHOOL DISTRICT
Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance^(a)</u>	June 30, 2004, <u>Estimated Balance^(b)</u>	June 30, 2005, <u>Estimated Balance^(c)</u>
Special Revenue Funds			
Deferred Maintenance	\$ 862,529	\$ 724,684	\$ 907,378
Capital Project Funds			
Building	25,348,817	8,300,285	3,600,000
Capital Facilities	84,058	45,558	7,058
Subtotal for Capital Project Funds	<u>25,432,875</u>	<u>8,345,843</u>	<u>3,607,058</u>
Total Alternate Liquidity	<u>\$26,295,404</u>	<u>\$9,070,527</u>	<u>\$4,514,436</u>

(a) Audited Financial Statement.

(b) Second Interim Report adopted on March 15, 2004.

(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

District: Los Altos School District
Tax and Revenue Anticipation Notes

EXHIBIT I
ACTUAL CASH FLOW
 (Actuals through January 2004, Projected February through June 2004)
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Receipts													
Revenue Limit: Property Tax	102,110	4,358	75,743	1,504,718	1,351,702	4,862,971	2,176,882	500,000	500,000	1,000,000	5,150,510	498,644	13,089,526
Revenue Limit: State Aid	165,727	99,178	132,453	132,453	0	0	52,981	(254,741)	0	0	0	0	132,453
Other Receipts	664,379	234,570	328,129	487,026	138,076	911,960	4,694,459	575,000	575,000	3,875,000	2,075,000	233,072	13,984,019
Note Proceeds	6,032,444	0	0	0	0	0	0	0	0	0	0	57,306	6,089,750
Total Receipts	12,874,660	338,106	436,325	2,124,207	1,490,778	5,874,931	6,924,322	820,259	1,075,000	4,875,000	7,225,510	5,789,022	39,413,773
Disbursements													
Salaries and Benefits	1,036,991	631,869	2,574,703	2,607,786	2,623,370	2,595,246	2,614,238	2,618,833	2,618,833	2,618,833	2,618,832	2,618,831	25,100,002
Other Disbursements	852,280	440,093	298,666	529,468	413,910	165,251	542,294	465,000	515,000	515,000	500,504	416,559	3,840,925
Note Payment Pledge	0	0	0	0	0	0	2,400,000	0	0	2,400,000	1,289,750	0	4,089,750
Total Disbursements	1,889,271	1,071,962	2,873,369	3,137,254	3,037,280	2,763,507	5,556,532	3,083,833	3,133,833	3,133,833	3,409,086	3,035,390	33,060,657
Net Increase/Decrease	1,114,789	266,137	(1,437,044)	(1,113,047)	(1,546,502)	(788,576)	1,367,790	1,136,426	(1,058,833)	1,741,167	3,816,424	2,753,632	(2,046,884)
Ending Cash	2,114,789	2,380,926	943,882	(193,167)	(1,243,678)	(2,032,254)	(664,464)	467,939	(583,000)	1,237,833	5,035,448	7,789,270	5,742,386

EXHIBIT II
PROJECTED CASHFLOW
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Receipts													
Revenue Limit: Property Tax	100,000	5,000	75,000	1,500,000	1,200,000	5,000,000	2,500,000	500,000	500,000	1,200,000	5,000,000	505,337	15,915,337
Revenue Limit: State Aid	19,683	39,366	26,244	26,244	26,244	26,244	26,244	48,134	24,067	24,067	24,067	24,067	240,673
Other Receipts	514,175	267,500	210,000	435,000	188,000	814,000	4,335,000	550,000	550,000	3,790,000	1,950,000	897,282	13,984,019
Note Proceeds	6,333,937	0	0	0	0	0	0	0	0	0	0	103,042	6,436,979
Total Receipts	13,067,795	311,866	291,244	1,961,244	1,414,244	5,820,244	6,861,244	1,050,000	1,074,067	4,914,067	6,974,067	6,329,728	38,327,616
Disbursements													
Salaries and Benefits	1,025,294	621,339	2,553,233	2,586,290	2,602,090	2,573,533	2,591,837	2,596,442	2,596,442	2,596,442	2,596,441	2,596,440	25,100,002
Other Disbursements	657,075	393,827	579,591	501,562	377,792	195,424	424,246	410,839	446,820	436,820	423,489	241,572	3,840,925
Note Payment Pledge	0	0	0	0	0	0	2,500,000	0	0	2,500,000	1,436,979	0	4,436,979
Total Disbursements	1,682,369	1,015,166	3,132,824	3,087,852	2,979,882	2,768,957	5,516,083	3,007,281	3,043,262	3,033,262	3,019,930	2,838,012	33,060,657
Net Increase/Decrease	1,385,426	296,697											
Ending Cash	2,385,426	2,682,123	840,543	(126,608)	(965,638)	(1,774,681)	(714,837)	542,719	(969,195)	1,036,737	3,954,517	6,961,258	5,742,386

Note: Beginning cash includes cash balance from Special Reserve Fund.

LOS ALTOS SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT E. BARSANTI (RETIRED) • PEGGY H. CHEN, C.P.A. • JEFFREY J. IRA, C.P.A. • KATHERINE CHAO, C.P.A. • JULIE LIN, C.P.A.

The Honorable Board of Trustees
 Los Altos School District
 Los Altos, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Los Altos School District, as of and for the year ended June 30, 2003, which collectively comprise the district's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Los Altos School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Los Altos School District at June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to the basic financial statements, the District adopted the provisions of Government Accounting Standards Board Statements No. 33, *Accounting and Financial Reporting of Nonexchange Transactions*, No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2002.

In accordance with Government Auditing Standards, we have also issued a report dated October 24, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

C. G. Uhlenberg LLP

October 24, 2003

Redwood City, California

**Los Altos School District (Santa Clara County)
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The discussion and analysis of Los Altos School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2003 (FY 2003). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for FY 2003 are as follows:

- In total, the assets of the district exceeded its liabilities by \$34.8 million (*net assets*). Net assets increased by \$5.5 million.
- General revenues (property taxes and unrestricted revenue) accounted for \$28.3 million or 66% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$14.9 million or 34% of total revenues of \$43.2 million. Total revenues were \$5.5 million greater than expenses, which is the change in net assets from the prior year.
- The district had \$37.7 million in expenses, of which as noted above \$14.9 million of these expenses were offset by program specific charges for services, grants, or contributions. The balance, \$22.8 million, was offset by general revenues.
- The district has two major funds, the General Fund and the Building Fund.
 - At the end of FY 2003, the district's unreserved and undesignated fund balance for the General Fund was \$812,191, or 2.7% of total general fund expenditures. The General Fund had \$29.2 million in revenues and \$30.2 million in expenditures, a decrease in fund balance of \$1 million over the prior year. This draw down of reserves was anticipated by the Board of Trustees. An increase in the district's parcel tax from \$264 to \$597 per parcel of property will generate an additional \$4 million for the district beginning in FY 2004, which will more than offset the draw down of reserves.
 - The Building Fund's fund balance decreased from \$47.7 million to \$25.3 million as we used building fund monies to finance the continuation of our construction and modernization program.

Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the district's overall financial position.

**Los Altos School District (Santa Clara County)
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance, Other Independent Auditor's Reports, and Findings and Recommendations as well as a Statistical Section.

Overview of the Financial Statements

District-wide Financial Statements—Statement of Net Assets and the Statement of Activities

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

These two statements report the district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district's property tax base, current property tax laws in California restricting revenue growth, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-like activities.

The district-wide financial statements can be found on pages 14–15 of this report.

Fund Financial Statements

The analysis of the district's major funds begins on page 16. Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district's most significant funds and not the district as a whole. The district's major governmental funds are the General Fund and the Building Fund.

Governmental Funds. Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

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 you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds. The district is the trustee, or fiduciary, for student body funds. All of the district's fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets* on page 20. We exclude these activities from the district's other financial statement because the district cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 21 of this report.

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

Financial Analysis of the District as a Whole

Recall that the *Statement of Net Assets* and the *Statement of Activities* provide the perspective of the District as a whole. Table 1 provides a summary of the district's net assets for FY 2003 compared to FY 2002. Table 2 shows the changes in net assets from FY 2002 to FY 2003. *This section normally is used to show whether there has been an improvement or deterioration in the district's financial position from the previous year. Since prior year information for these statements is not available, as it is the district's first year under the GASB 34 model, only current year information is shown.*

Table 1

	(a)			Percentage
	2002	2003	Change	Change
Assets				
Current and Other Assets	\$ -	\$ 39,183,144	n/a	n/a
Capital Assets	-	90,410,224	n/a	n/a
Total Assets	-	129,593,368	n/a	n/a
Liabilities				
Long-Term Liabilities	-	86,369,631	n/a	n/a
Other Liabilities	-	8,454,315	n/a	n/a
Total Liabilities	-	94,823,946	n/a	n/a
Net Assets				
Invested in Capital Assets, Net of Debt	-	5,826,175	n/a	n/a
Restricted	-	29,164,713	n/a	n/a
Unrestricted	-	(221,466)	n/a	n/a
Total Net Assets	\$ -	\$ 34,769,422	n/a	n/a

(a) Information is not available since this is the District's first year of reporting under the new GASB 34 model. Comparative information will be presented in the coming fiscal years.

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

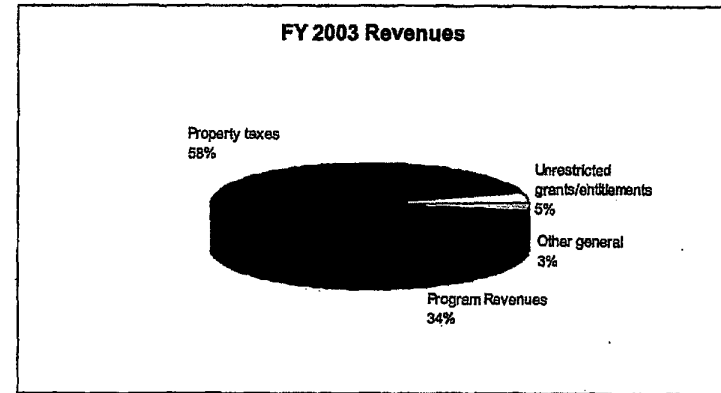
Table 2

	(a) 2002	2003	Change	Percentage Change
Revenues				
Program Revenues:				
Charges for Services	\$ -	\$ 462,697	n/a	n/a
Operating Grants and Contributions	-	14,439,918	n/a	n/a
General Revenues:				
Property Taxes	-	25,167,472	n/a	n/a
Grants and Entitlements - Unrestricted	-	1,961,826	n/a	n/a
Other	-	1,198,660	n/a	n/a
Total Revenues	-	43,230,573	n/a	n/a
Program Expenses				
Instruction	-	22,256,186	n/a	n/a
Support Services:				
Instruction-related services	-	2,599,949	n/a	n/a
Pupil services	-	1,765,685	n/a	n/a
General administration	-	3,025,307	n/a	n/a
Plant services	-	4,838,124	n/a	n/a
Other outgo	-	183,697	n/a	n/a
Interest and Fiscal Charges	-	3,077,663	n/a	n/a
Total Expenses	-	37,746,611	n/a	n/a
Change in Net Assets	\$ -	\$ 5,483,962	n/a	n/a

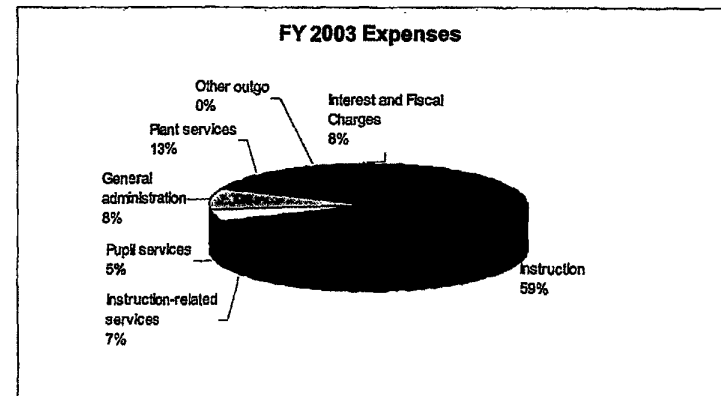
(a) Information is not available since this is the District's first year of reporting under the new GASB 34 model. Comparative information will be presented in the coming fiscal years.

District programs for FY 2003 cost \$37.7 million. To support those programs the district garnered \$14.9 million in program revenues. The balance of support came from property taxes and other general revenues. Since property tax collections were in excess of \$25 million, the district's dependence upon tax revenues is apparent.

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003



Instruction comprises 59% of district expenses. Support service expenses make up 33% of the total, with the balance being interest and fiscal charges.



Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

Governmental Activities

The *Statement of Activities* on page 15 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 summarizes information from the *Statement of Activities*, showing the total cost of services and the net cost of services. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3

	(a)	(a)		
	Total Cost of Services 2002	Net Cost of Services 2002	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$ -	\$ -	\$ 22,256,186	\$ 17,915,186
Support Services:				
Instruction-related services	-	-	2,599,949	2,313,138
Pupil services	-	-	1,765,685	1,367,627
General administration	-	-	3,025,307	2,512,843
Plant services	-	-	4,838,124	(4,508,772)
Other outgo	-	-	183,697	166,311
Interest and Fiscal Charges	-	-	3,077,663	3,077,663
Total Expenses	\$ -	\$ -	\$ 37,746,611	\$ 22,843,996

(a) Information is not available since this is the District's first year of reporting under the new GASB 34 model. Comparative information will be presented in the coming fiscal years.

The expenditure categories shown in Table 3 are summarized below.

- Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- Instruction-related services and pupil services include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- General administration costs include expenses associated with the administrative and financial supervision of the district.
- Plant services involve keeping the school grounds, buildings, and equipment in an effective working condition.
- Other outgo reflects the issuance costs and interest expense on short-term borrowing. The district issued Tax and Revenue Anticipation Notes (TRAN) to supplement cash flow.
- Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the district.

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

Financial Analysis of the District's Funds

The district's governmental funds report a combined fund balance of \$30.7 million, which is significantly below last year's total of \$53.9 million. Table 4 provides an analysis of the district's fund balances and the total change in fund balances from the prior year.

Table 4

Fund	Fund Balance June 30, 2002	Fund Balance June 30, 2003	Increase (Decrease)
General	\$ 2,737,666	\$ 1,730,567	\$ (1,007,099)
Deferred Maintenance	602,886	862,630	259,644
Special Reserve	267,160	273,275	6,115
Building	47,652,288	25,348,817	(22,303,471)
Capital Facilities	147,717	84,058	(63,659)
Bond Interest & Redemption	2,469,676	2,429,584	(40,092)
Total	\$ 53,877,393	\$ 30,728,831	\$ (23,148,562)

- The change in fund balance in the General Fund is primarily because \$1.5 million in local fund raising in FY 2002 was set aside to finance FY 2003 operations.
- The increase in the fund balance of the Deferred Maintenance Fund is due to state funding and a transfer in from the building fund for deferred maintenance projects that will be started as needed in the near future. In FY 2003 the district had no major maintenance projects.
- The change in fund balance for the Building Fund is due to the expenditure of bond proceeds on the district's construction program. As of June 2003 the district has yet to complete modernization of four of its nine schools.
- The decline in fund balance in the Capital Facilities Fund was due to a drop in developer fee revenues while the district's ongoing expenses (for the lease of portable classrooms) continued at the same level as in the previous year.

General Fund Budgetary Highlights

The district's budget is prepared according to California law and is based on the modified accrual basis of accounting.

During the course of the 2003 fiscal year the district amended its General Fund budget numerous times, which resulted in revenue estimates increasing \$1.3 million (5% increase) and expenditure appropriations increasing \$4.1 million (15% percent increase). When the district adopted its budget in June 2002 the state budget had

Los Altos School District (Santa Clara County)
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

not yet been adopted, so revenue estimates from the state were increased to reflect the adopted appropriations to schools. The adopted district budget also reflected significant reductions in staffing and other cutbacks. Local fund-raising efforts, in combination with additional state monies, enabled the district to restore staff and programs prior to the start of school. Consequently the expenditure appropriations were significantly increased as were local revenue appropriation estimates.

The district uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. In late May the district made its final appropriations adjustments to as closely match expected revenue and expenditure totals as possible.

Major differences between final budget amounts and actual revenues and expenditures are detailed as follows:

1. The district realized additional revenues from the state beyond the level budgeted for as a result of funding deferrals that ended up being recorded in this fiscal year.
2. Local revenues were greater than final budget estimates due to additional fund-raising by the school PTA's to support district expenditures.
3. A significant portion of the unspent expenditure appropriations was the result of program managers carrying forward budget balances into the next fiscal year.

Capital Asset and Debt Administration

Capital Assets

At the end of the fiscal year, the district had \$99.9 million invested in land, buildings, equipment (including computer equipment, furniture, and vehicles), and construction in progress. Table 5 shows FY 2003 balances as compared to FY 2002. For more information see the Notes to the Financial Statements (page 26).

Table 5

	(a) 2002	2003	Percentage Change
Land	\$ -	\$ 1,488,885	n/a
Buildings and Improvements	-	95,938,602	n/a
Equipment	-	682,159	n/a
Construction in Progress	-	1,775,000	n/a
Total	\$ -	\$ 99,884,646	n/a
Less: Accumulated Depreciation	\$ -	\$ 9,474,422	n/a
Net Capital Assets	\$ -	\$ 90,410,224	n/a

(a) Information is not available since this is the District's first year of reporting under the new GASB 34 model. Comparative information will be presented in the coming fiscal years.

Los Altos School District (Santa Clara County)
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Capital outlay during the fiscal year included expenditures for major construction and modernization projects, particularly at two elementary schools (Almond and Springer schools). The majority of equipment purchased during FY 2003 was for new computer equipment throughout the district. At fiscal year end, the district had contractual obligations of almost \$1.8 million with various contractors for the completion of modernization work at the Almond and Springer school campuses.

Long Term Debt

At June 30, 2003 the district had \$86.4 million in long term debt obligations. Almost \$86 million of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining \$418,988 in long term obligations is the amount of compensated absences liability recorded by the district at year end, an increase of \$65,928 over the prior year.

Table 6 shows the district's outstanding debt as of June 30, 2003 as well as comparable data for the prior year.

Table 6
Outstanding Debt at June 30

	2002	2003	Percentage Change
General obligation bonds	\$ 85,009,049	\$ 84,584,049	-0.5%
Accrued interest on bonds	-	1,366,594	n/a
Sub-total	\$ 85,009,049	\$ 85,950,643	1.1%
Compensated absences	353,060	418,988	18.7%
Total Outstanding Debt	\$ 85,362,109	\$ 86,369,631	1.2%

State law limits the amount of general obligation debt an elementary school district may issue to 1.25 percent of its total assessed valuation. The current debt limitation for the district is \$105.9 million, which is \$21.3 million greater than the district's outstanding general obligation debt as of June 30, 2003.

Factors Bearing on the District's Future

- > The State of California is currently in a budget crisis resulting in reduced funding to schools. As part of the State Budget Act for 2003/04 overall funding to school districts was cut back 3% from the prior year. Cut backs are expected to continue into the 2004/05 year as well. The district is expected to lose \$540,000 in state funds in 2003/04 as a result and as much as \$600,000 in 2004/05.

Los Altos School District (Santa Clara County)
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

- > In November 2002, local voters approved a parcel tax increase of \$333 per parcel, increasing the district's parcel tax from \$264 to \$597 per parcel. The increase takes effect in the 2003/04 fiscal year and garners an additional \$4 million for district operations. This increase in local funding offsets the impact of decreased state funding.
- > A projected slow down in enrollment growth, a proposed charter school, continued escalating insurance costs (health, workers compensation, property and liability, etc.), and competition for quality teachers all create additional potential financial burdens on the district.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact Mr. Randall Kenyon, Assistant Superintendent for Business Services, Los Altos School District, 201 Covington Road, Los Altos, California 94024.

LOS ALTOS SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2003

	Governmental Activities
Assets	
Cash in county treasury	\$ 31,336,740
Cash collections awaiting deposit	709,996
Cash in revolving fund	5,000
Cash with fiscal agent	5,124,653
Accounts receivable	1,800,362
Due from grantor government	114,075
Stores inventories	9,008
Prepaid expenses	83,311
Land	1,488,885
Building and improvements	95,938,602
Equipment	682,159
Construction in progress	1,775,000
Less accumulated depreciation	<u>(9,474,422)</u>
Total Assets	\$ 129,593,369
Liabilities	
Accounts payable	\$ 3,120,756
Deferred revenue	114,252
Due to grantor government	44,303
Tax revenue anticipation noted and interest payable	5,175,004
Long-term liabilities:	
Due within one year:	
Accrued interest	1,366,594
General obligation bonds payable	<u>522,786</u>
Total due within one year	<u>1,889,380</u>
Due after one year:	
General obligation bonds payable	84,061,263
Compensated absences payable	418,988
Total due after one year	<u>84,480,251</u>
Total Liabilities	\$ 94,823,946
Net Assets	
Invested in capital assets, net of related debt	\$ 5,826,175
Restricted for:	
Capital projects	26,295,404
Debt service	2,429,584
Educational programs	439,726
Unrestricted	<u>(221,466)</u>
Total Net Assets	\$ 34,769,423

Comprehensive Annual Financial Report

Financial Section

LOS ALTOS SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 22,256,186	\$ 134,779	\$ 4,206,221	\$ (17,915,186)
Instruction-related services:				
Supervision of instruction	341,875	1,601	49,972	(290,302)
Instruction library, media and technology	467,303	1,565	48,846	(416,892)
School site administration	1,790,771	5,739	179,086	(1,605,946)
Pupil services:				
Home-to-school transportation	507,841	6,420	200,353	(301,068)
Food services	30,231	969	30,235	973
All other pupil services	1,227,613	4,970	155,111	(1,067,532)
General administration:				
Data processing	153,518	451	14,079	(138,988)
All other general administration	2,871,789	15,460	482,474	(2,373,855)
Plant services	4,838,124	290,203	9,056,694	4,508,773
Interest on long-term debt	3,077,663	-	-	(3,077,663)
Other outgo	183,697	540	16,847	(166,310)
Total governmental activities	\$ 37,746,611	\$ 462,697	\$ 14,439,918	(22,843,996)
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes			18,320,988	
Taxes levied for debt service			6,846,484	
Federal and state aid non restricted to specific purposes			1,961,826	
Interest and investment earnings			971,060	
Rental income			227,600	
Total general revenues			28,327,958	
Change in net assets			5,483,962	
Net assets beginning			29,285,461	
Net assets ending			<u>\$ 34,769,423</u>	

Financial Section

Comprehensive Annual Financial Report

LOS ALTOS SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General		Building		Other ⁽¹⁾ Governmental Funds	Total Governmental Funds
Assets						
Cash in county treasury	\$ 1,342,942	\$ 26,527,255	\$ 3,466,343	\$ 31,336,740		
Cash collections awaiting deposit	87,175	608,394	14,427	709,996		
Cash in revolving fund	5,000	-	-	5,000		
Cash with fiscal agent	5,124,653	-	-	5,124,653		
Accounts receivable	1,088,945	542,887	168,530	1,800,362		
Due from grantor government	114,075	-	-	114,075		
Prepaid expenditures	83,311	-	-	83,311		
Stores inventories	9,008	-	-	9,008		
Total Assets	\$ 7,855,109	\$ 27,678,536	\$ 3,649,500	\$ 39,183,145		
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 790,983	\$ 2,329,719	\$ 54	\$ 3,120,756		
Due to grantor government	44,303	-	-	44,303		
Deferred revenue	114,252	-	-	114,252		
Tax anticipation revenue note	5,175,004	-	-	5,175,004		
Total Liabilities	6,124,542	2,329,719	54	8,454,313		
Fund balances:						
Reserved for:						
Revolving fund	5,000	-	-	5,000		
Stores inventories	9,008	-	-	9,008		
Prepaid expenditures	83,311	-	-	83,311		
Legally restricted balances	439,725	-	-	439,725		
Debt service	-	-	2,429,584	2,429,584		
Unreserved:						
Designated for:						
Other program carryovers	381,332	-	-	381,332		
Undesignated, reported in:						
General fund	812,191	-	-	812,191		
Building funds	-	25,348,817	-	25,348,817		
Other Governmental funds	-	-	1,219,862	1,219,862		
Total Fund Balances	1,730,567	25,348,817	3,649,446	30,728,830		
Total Liabilities and Fund Balances	\$ 7,855,109	\$ 27,678,536	\$ 3,649,500	\$ 39,183,145		

⁽¹⁾ Other governmental funds include deferred maintenance fund, special reserve fund, bond redemption fund and capital facilities fund.

Comprehensive Annual Financial Report

Financial Section

LOS ALTOS SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Total fund balances - Governmental funds		\$ 30,728,830
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$99,884,646 and the accumulated depreciation is \$9,474,422.	90,410,224	
To recognize accrued interest at year end.	(1,366,594)	
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:		
General obligation bonds	84,584,049	
Compensated absences (vacation)	418,988	(85,003,037)
Total net assets - governmental activities		\$ 34,769,423

Financial Section

Comprehensive Annual Financial Report

LOS ALTOS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue limit sources:				
State apportionments	\$ 691,476	\$ -	\$ -	\$ 691,476
Local sources	17,298,504	-	-	17,298,504
Federal	565,591	-	-	565,591
Other state	3,469,580	5,238,279	194,964	8,902,823
Other local	6,853,513	1,452,725	3,974,532	12,280,770
Total revenues	28,878,664	6,691,004	4,169,496	39,739,164
Expenditures:				
Instruction	20,803,929	-	-	20,803,929
Instruction-related services:				
Supervision of instruction	320,516	-	-	320,516
Instruction library, media and technology	438,108	-	-	438,108
School site administration	1,678,893	-	-	1,678,893
Pupil services:				
Home-to-school transportation	476,114	-	-	476,114
Food services	28,342	-	-	28,342
All other pupil services	1,150,918	-	-	1,150,918
General administration:				
Data processing	143,927	-	-	143,927
All other general administration	2,692,374	-	-	2,692,374
Plant services	2,311,429	32,001,701	450,501	34,763,631
Other outgo	172,221	-	-	172,221
Debt service:				
Principal	-	-	425,000	425,000
Interest	-	-	3,285,163	3,285,163
Total expenditures	30,216,771	32,001,701	4,160,664	66,379,136
Excess (deficiency) of revenues over (under) expenditures	(1,338,107)	(25,310,697)	8,832	(26,639,972)
Other financing sources (uses):				
Operating transfers in	-	-	153,175	153,175
Operating transfers out	-	(153,175)	-	(153,175)
PERS reduction transfer	331,008	-	-	331,008
All other financing sources	-	3,160,401	-	3,160,401
Total other financing sources (uses)	331,008	3,007,226	153,175	3,491,409
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,007,099)	(22,303,471)	162,007	(23,148,563)
Fund balances beginning	2,737,666	47,652,288	3,487,439	53,877,393
Fund balances ending	\$ 1,730,567	\$ 25,348,817	\$ 3,649,446	\$ 30,728,830

Comprehensive Annual Financial Report

Financial Section

LOS ALTOS SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Total net change in fund balances - governmental funds	\$ (23,148,563)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$30,227,768 exceeds depreciation expense(2,165,938) in the period.	28,061,830
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
Repayment of bond principal	425,000
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$61,805.	(61,805)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized 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.	207,500
Changes in net assets of governmental activities	<u>\$ 5,483,962</u>

Financial Section

Comprehensive Annual Financial Report

LOS ALTOS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2003

	<u>Egan Junior High School</u>	<u>Blach Junior High School</u>	<u>Study Body Agency Fund Total</u>
Assets:			
Cash on hand and in banks	<u>\$ 107,280</u>	<u>\$ 2,089</u>	<u>\$ 109,369</u>
Total Assets	<u>\$ 107,280</u>	<u>\$ 2,089</u>	<u>\$ 109,369</u>
Liabilities			
Due to student groups	<u>\$ 107,280</u>	<u>\$ 2,089</u>	<u>\$ 109,369</u>
Total Liabilities	<u>\$ 107,280</u>	<u>\$ 2,089</u>	<u>\$ 109,369</u>

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. SIGNIFICANT ACCOUNTING POLICIES**A. Accounting Principles**

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

B. Reporting Entity

The district is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The district's combined financial statements include the accounts of all its operations. The district evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2003, the district does not have any component units and is not a component unit of any other reporting entity.

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the district was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the district's financial activities is also required by

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

GASB 34. Furthermore, the district's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a \$30,728,830 conversion of fund balance to net assets and a net asset balance of \$34,769,422 in the June 30, 2003 government-wide financial statements.

D. Basis of Presentation**Government-wide Financial Statements:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the district.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The district does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the district.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use 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 under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the district receives value *without* directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, than unrestricted resources as they are needed.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

F. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for proceeds from the sale of real property and account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Non-major Governmental Funds:

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 two non-major special revenue funds:

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

The *Special Reserve Fund for Other Than Capital Projects* was established to account for resources reserved for general operating purposes.

Debt Service Funds are used to account for both the accumulation of resources from ad valorem tax levies and the interest and redemption of principal of the funding of general obligation bonds issued by the district.

The *Bond Redemption Fund* is used to account for the interest and redemption of principal of general obligation bonds.

Capital Projects Funds are used to account for the acquisition and construction of all major governmental general fixed assets. The district maintains one non-major capital projects 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).

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains an agency fund for the two Junior High student body accounts. The student body funds are used

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the district's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The district's governing board satisfied these requirements.

These budgets are revised by the district's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The district employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Encumbrances

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

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

2. Stores Inventories and Prepaid Expenditures

Stores inventories

Stores inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The district's central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

3. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Asset Class	Examples	Estimated Useful Life in Years
Land		NA
Land improvements	Paving, flagpoles, retaining walls	10 to 20
Building and structures	Classrooms, storage buildings	25 to 50
Equipment	Copiers, mixers, steamers, ovens, school buses, forklifts, lawn tractors	5 to 15

4. Deferred Revenue

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

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserves for revolving fund, stores inventory, prepaid expenditures and legally restricted balances reflect the portions of fund balance represented by each respective account. These amounts are not available for appropriation and expenditure at the balance sheet date.

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

8. Revenue Limit/Property Tax

The district's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the district's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the district.

The California Department of Education reduces the district's entitlement by the district's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The district's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other school districts in the County to form the South Bay Area Schools Insurance Authority (SBASIA), the Santa Clara County Schools Insurance Group (SCCSIG), the Schools Excess Liability Fund (SELF), and the Schools Alliance for Workers' Compensation Excess Self-Funded (SAWCXSF), public entity risk pools currently operating as common risk management and insurance programs. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SBASIA and SCCSIG will be self-sustaining through member premiums and will reinsure through commercial companies (or one of the excess JPA's mentioned above) for claims in excess of self-insured levels.

2. CASH AND INVESTMENTS**A. Cash on Hand, in Banks and in Revolving Fund**

Cash balances on hand, in banks, and revolving funds are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). These accounts are held within various financial institutions. As of June 30, 2003, the carrying amount of the district's accounts was \$714,996.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

B. Cash in County Treasury

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled \$31,336,740 as of June 30, 2003. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$31,087,377. The district is considered to be an involuntary participant in the external investment pool. Interest is deposited into district funds. The county is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The District has determined that the amounts of any such adjustments would not be material.

A summary of deposits as of June 30, 2003 is as follows:

Deposits:	Bank	Carrying
	Balance	Amount
Cash in county treasury	\$ 31,336,740	\$ 31,336,740
Cash collections awaiting deposit	709,996	709,996
Cash in revolving fund	5,000	5,000
Cash with fiscal agent	5,124,653	5,124,653
Total deposits	\$ 37,176,389	\$ 37,176,389

3. EXCESS EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2003, expenditures exceeded appropriations in individual funds as follows:

Excess Appropriations Category	Expenditures	Explanation
General Fund:		
Certificated salaries	\$ 9,479	Higher than anticipated substitute teacher costs.
Deferred Maintenance Fund:		
Employee benefits	2,479	Change of health plan with increased costs.
Books and supplies	174	Unanticipated expenditures in June.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

4. ACCOUNTS RECEIVABLE

Receivables at June 30, 2003, consisted of the following:

	General Fund	Building Fund	Other Governmental Funds	Totals
Federal Government:				
Categorical aid programs	\$ 324,228	\$ -	\$ -	\$ 324,228
State Government:				
Categorical aid programs	407,770	-	-	407,770
Lottery	179,315	-	-	179,315
Special allowance	-	-	144,050	144,050
Total State Government	587,085	-	144,050	731,135
Interest	32,062	121,521	24,480	178,063
Miscellaneous	145,570	421,366	-	566,936
Total accounts receivable	\$ 1,088,945	\$ 542,887	\$ 168,530	\$ 1,800,362

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the fiscal year 2002-03 were as follows:

Funds	Transfers In	Transfers Out
Building fund	\$ -	\$ 153,175
Nonmajor governmental fund:		
Deferred maintenance fund	153,175	-
Total	\$ 153,175	\$ 153,175

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2003 are shown below:

	Balance ⁽¹⁾		Balance	
	July 1, 2002	Additions	Deletions	June 30, 2003
Land - not depreciable	\$ -	\$ 1,488,885	\$ -	\$ 1,488,885
Building and improvements	-	95,938,602	-	95,938,602
Equipment	-	682,159	-	682,159
Construction in progress	-	1,775,000	-	1,775,000
Total capital assets	-	99,884,646	-	\$ 99,884,646
Less accumulated depreciation for:				
Buildings and improvements	-	9,096,240	-	9,096,240
Equipment	-	378,182	-	378,182
Total accumulated depreciation	-	9,474,422	-	9,474,422
Total capital assets - net depreciation	\$ -	\$ 90,410,224	\$ -	\$ 90,410,224

Depreciation expense was charged to governmental activities as follows:

Governmental activities:		
Instruction	\$	1,390,452
Supervision of instruction		21,359
Instruction library, media and technology		29,195
School site administration		111,878
Home-to-school transportation		31,727
Food services		1,889
All other pupil services		76,695
Data processing		9,591
All other general administration		179,415
Plant services		302,261
Other outgo		11,476
Total depreciation expense	\$	2,165,938

⁽¹⁾ Assets were excluded from the financial statements of the district prior to the current fiscal year.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

7. TAX AND REVENUE ANTICIPATION NOTES

The District issued \$5,000,000 of tax and revenue anticipation notes dated August 8, 2002. The notes mature on August 7, 2003 and yield 2.50% interest. The notes were sold to supplement cash flow.

The repayment schedule requires that \$2,500,000 be deposited with the County Treasurer in January 2003, with the remaining \$2,500,000 be deposited in May 2003. The accrued interest payment of \$125,000 was made in June 2003.

8. 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 the agreements contain a termination clause providing for cancellation, after a specified number of days and with written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Future minimum lease payments under these agreements are as follows:

Year Ended June 30;	Photocopy Machines	Mailing Machine	Portables	Total
2004	\$ 193,159	\$ 2,124	\$ 1,147,205	\$ 1,342,488
2005	188,467	2,124	-	190,591
2006	133,664	2,124	-	135,788
2007	38,149	2,124	-	40,273
2008	750	2,124	-	2,874
Total	\$ 554,189	\$ 10,620	\$ 1,147,205	\$ 1,712,014

9. BONDS PAYABLE

The District issued Series A General Obligation Bonds in the amount of \$40,000,000 on February 10, 1999 and Series B on May 17, 2001. Series B General Obligation Bonds consist of Current Interest Bonds of \$30,000,000 and Capital Appreciation Bonds of \$16,699,049. The proceeds of the notes are being used to construct additional classrooms and school facilities as needed and to renovate existing schools including upgrading wiring for safety and capacity and renovating aged plumbing systems, and upgrading classrooms.

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Interests on Series A bonds are payable semiannually on each February 1 and August 1, commencing February 1, 2000, and bears interest rates ranging from 4.00% to 7.00%. The principal of the bonds is payable on August 1 in each year. The Bonds maturing on and after August 1, 2007 are subject to optional redemption prior to maturity at the option of the District beginning on August 1, 2006. The annual debt service requirements of the Series A bonds as of June 30, 2003 are as follows:

Year Ended June 30.	Principal	Interest	Total Payment
2004	445,000	1,686,469	2,131,469
2005	580,000	1,660,875	2,240,875
2006	735,000	1,462,808	2,197,808
2007	1,520,000	1,706,479	3,226,479
2008	1,595,000	1,354,554	2,949,554
2009-13	7,920,000	5,985,741	13,905,741
2014-18	9,830,000	4,533,723	14,363,723
2019-23	4,610,000	2,659,723	7,269,723
2024	10,650,000	42,156	10,692,156
Totals	\$ 37,885,000	\$ 21,092,528	\$ 58,977,528

Interest on Series B Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2002. Series B bonds bear interest rates ranging from 5.00% to 5.25%. The principal of the bonds is payable on August 1 of each year, commencing August 1, 2009. The Current Interest Bonds maturing on and after August 1, 2012 are subject to optional redemption prior to maturity at the option of the District beginning on August 1, 2011. The Capital Appreciation Bonds will not bear current interest, but will accrete interest, at their stated Bond Yields, commencing on their date of delivery, from their respective Denominational Amounts to their respective Maturity Values on their respective maturity dates. Interest is compounded semiannually on each February 1 and August 1, commencing August 1, 2001. The principal and interest of the bonds is payable on August 1 of each year for the Current Interest Bonds, commencing August 1, 2003. The Capital Appreciation Bond maturing on and after August 1, 2014 is subject to optional redemption prior to maturity at the option of the District beginning on August 1, 2013. The annual debt service requirements of the Series B Current Interest and Capital Appreciation Bonds as of June 30, 2003 are as follows:

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Year Ended June 30.	Principal	Interest	Total Payment
2004	77,786	1,597,214	1,675,000
2005	144,228	1,630,772	1,775,000
2006	136,212	1,638,788	1,775,000
2007	132,243	1,647,757	1,780,000
2008	245,280	1,734,720	1,980,000
2009-13	6,988,282	7,524,176	14,512,458
2014-18	17,400,000	3,582,500	20,982,500
2019-23	13,922,219	16,758,198	30,680,417
2024-27	7,652,799	22,172,201	29,825,000
Totals	\$ 46,699,049	\$ 58,286,326	\$ 104,985,375

A schedule of changes in long-term debt for the fiscal year ended June 30, 2003, is shown below:

	Balance July 1, 2002		Repayments	Balance Due Within June 30, 2003	
	Balance	Additions		June 30, 2003	One Year
1999 GO Bonds, Series A	\$ 38,310,000		\$ 425,000	\$ 37,885,000	\$ 445,000
2001 GO Bonds, Series B					
Current Interest Bonds	30,000,000			30,000,000	-
Capital Appreciation Bonds	16,699,049			16,699,049	77,786
Accrued vacation	353,060	65,928		418,988	-
Total	\$ 85,362,109	\$ 65,928	\$ 425,000	\$ 85,003,037	\$ 522,786

10. JOINT POWERS AGREEMENTS

The District participates in six joint powers agreement (JPA) entities: the South Bay Area Schools Insurance Authority (SBASIA), the Schools Excess Liability Fund (SELF), the Santa Clara County Schools Insurance Group (SCCSIG), the Schools Alliance for Worker's Compensation Excess Self-Funded (SAWCXSF), the Bay Area Schools Insurance Cooperative (BASIC), and the Silicon Valley Joint Powers Transportation Agency (SVJPTA). A board consisting of a representative from each member district governs each JPA. The governing boards control the operation of the JPA's independent of any influence by the District beyond the District's representation on the governing board. Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation. The relationship between the District and each JPA is such that each JPA is not a component unit of the District for financial reporting purposes.

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The following is a summary of coverage provided by each JPA, and each JPA's financial statement information:

SBASIA

The SBASIA provides property and liability insurance coverage.

	<u>June 30, 2002</u>
Total Assets	\$ 4,810,272
Total Liabilities	1,751,671
Total Equity	3,058,601
Total Revenues	1,326,357
Total Expenditures	1,218,075

SELF

The SELF provides excess property and liability insurance coverage.

	<u>June 30, 2002</u>
Total Assets	\$ 112,124,000
Total Liabilities	64,484,000
Total Equity	47,640,000
Total Revenues	25,829,000
Total Expenditures	11,023,000

SCCSIG

The SCCSIG provides workers' compensation insurance and medical coverage for classified and administrative employees.

	<u>June 30, 2002</u>
Total Assets	\$ 22,002,395
Total Liabilities	9,351,369
Total Equity	12,651,026
Total Revenues	20,485,987
Total Expenditures	22,865,290

LOS ALTOS SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

BASIC

The BASIC provides medical coverage for certificated employees.

	<u>June 30, 2002</u>
Total Assets	\$ 6,112,419
Total Liabilities	1,390,711
Total Equity	4,721,708
Total Revenues	27,016,564
Total Expenditures	28,571,781

SVJPTA

The SVJPTA provides transportation services to students with disabilities.

	<u>June 30, 2002</u>
Total Assets	\$ 367,306
Total Liabilities	272,784
Total Equity	94,522
Total Revenues	3,658,363
Total Expenditures	3,563,841

SAWCXSF

The SAWCXSF provides workers' compensation excess protection.

	<u>June 30, 2003</u>
Total Assets	\$ 31,500,067
Total Liabilities	24,535,587
Total Equity	6,964,480
Total Revenues	20,528,613
Total Expenditures	1,197,326

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

11. COMMITMENTS AND CONTINGENCIES**A. Litigation**

The District is involved in a litigation and alleged for breach of contract and other causes of action. The District disputes the claim in its entirety and will defend against it vigorously. It is currently premature to determine the outcome of the litigation.

B. Federal and State Allowances, Award, and Grants

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

C. Early Retirement

The board of education has adopted an early retirement incentive program. The District has entered into contracts with certain eligible employees whereby 25 service days per year will be performed during the future five year period or age 65, whichever comes first, for a stipulated yearly amount plus employee benefits. The outstanding contract amount for this purpose is \$25,000. This amount is contingent upon the employees performing the required service days per year.

12. EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System**(1) Plan Description**

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

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(2) Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ended June 30, 2003, 2002, and 2001 were \$1,327,205, \$1,314,900 and \$1,280,533 respectively, and equal 100% of the required contributions for each year.

B. Public Employees' Retirement System**(1) Plan Description**

The District contributes to PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. 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 Employee's Retirement Law. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

(2) Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2003 was 2.894% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to PERS for the fiscal year ended June 30, 2003, 2002, and 2001 were \$107,002, \$74,134 and \$59,253, respectively, and equal 100% of the required contributions for each year.

13. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District Board provides post-retirement benefits to the District's employees as follows:

Certificated Personnel - The School Board shall provide fully paid health insurance premiums for unit members for life, and dependent(s) for those unit members retiring after reaching their 55th birthday

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

provided that said unit member has served ten consecutive years of service in the District immediately prior to retirement and were hired prior to October 1, 1988, and the retiree shall reimburse the District for the dependent's portion of the premium. Said dependent coverage shall terminate at the age of 65. A School Board approved leave shall constitute a year of service for the purpose of eligibility.

Classified Personnel - The School Board will provide health and major medical benefits to all retirees who were hired before November 1, 1988. The health insurance plan to be provided will be equal to the plan selected by the employee for the final year of employment and shall remain in force until the 65th birthday at which time the employee shall apply for Medicare coverage. After that time, the District's benefit to the employee will be supplemental to Medicare coverage only. The option to cover retiree dependents shall be exercised by the retiree with premiums being paid annually by the employee through the District.

Management Personnel - Management employees who were hired before July 1, 1989, who have served five years in the District immediately prior to retirement and ten consecutive years in their retirement system and who retire after their 55th birthday will remain in the management health care plan until their 65th birthday, with premiums paid for the employee and dependents by the District. When the employee or dependent reaches age 65, they shall apply for Medicare, if eligible, and the District will pay premiums for health care on a "carve out" basis. Employees or dependents ineligible for Medicare will be carried on the District's regular health care plan for the group or will be provided with a similar plan. The District will also provide dental coverage for these employees after their retirement.

Management employees who were hired on or after July 1, 1989 and their dependents may participate in the District's health and dental plans after retirement if their participation is allowed by the plans currently in force. Premiums will be paid by the employee through the District.

Confidential Personnel - The School Board shall provide fully paid health premiums for employees' dependents for those retiring after reaching their 55th birthday provided that said member has served five years in the District and ten consecutive years in their retirement system prior to retirement and was hired before November 1, 1988. The School Board shall also provide for such retiring employees' dental coverage as specified above. This coverage shall remain in force until the employee and/or dependent's 65th birthday, at which time the employee and/or dependent shall apply for Medicare coverage. After that time, the District's benefit to the employee and/or dependent will be supplemental to Medicare on a "carve-out" basis for those employees and/or dependents who qualify for Medicare. Employees and/or dependents that do not qualify for Medicare will be carried on the District's regular health plan for the group. These provisions shall also apply to employees hired after October 31, 1988, when they retire, except that the premiums will be paid by the employee through the District.

For the fiscal year ended June 30, 2003, the District expended \$863,596 of post-retirement health care benefits.

LOS ALTOS SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

14. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

The District issued \$6,000,000 of tax and revenue anticipation notes dated July 1, 2003. The notes mature on June 30, 2004 and yield 1.5% interest. The notes were sold to supplement cash flow.

Repayment requirements are that \$2,400,000 is to be deposited with the County Treasurer in January 2004, and the remainder of \$3,600,000 to be deposited in April 2004. Accrued interest of \$90,000 will be deposited in May 2004.

General Obligation Bonds

On October 1, 2003, the District issued Series C General Obligation Bonds in the amount of \$8,000,000 that requires the county to levy annual ad valorem taxes for the interest and principal on the bonds. The proceeds of bonds are used to construct additional classrooms and school facilities as needed and to renovate existing schools including to upgrade wiring for safety and capacity and renovating aged plumbing systems, and upgrading classrooms.

Interests on Series C bonds are payable semiannually on each February 1 and August 1, commencing February 1, 2004, and bears interest rates ranging from 2.50% to 10.00%. The principal of the bonds is payable on August 1 in each year. The Bonds maturing on and after August 1, 2012 are subject to optional redemption prior to maturity at the option of the District beginning on August 1, 2011.

LOS GATOS UNION SCHOOL DISTRICT

BOARD OF TRUSTEES

Dorothy Rouse
President

Kathleen Bays
Clerk

Phil Couchee
Member

Alex Granas
Member

Tina Orsi-Hartigan
Member

DISTRICT ADMINISTRATION

Mary Ann Park
Superintendent

Linda Latasa
Assistant Superintendent, Business Services

GENERAL AND FINANCIAL INFORMATION

Introduction

The Los Gatos Union School District (the "District") provides educational services to residents of the Cities of Los Gatos, Monte Sereno, and San Jose and adjoining unincorporated areas in Santa Clara County. The District serves a population of approximately 27,073.

The District operates four elementary schools (K-5) and one middle school (6-8).

The District's 2003/04 pupil-teacher ratios are 19.4:1 for grades K-3, 26.9:1 for grades 4-5 and 25.5:1 for grades 6-8.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Mary Ann Park has served in this capacity since October 1998.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

LOS GATOS UNION SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	2,704
2001/02 ^(b)	2,650
2002/03 ^(b)	2,576
2003/04 ^(c)	2,591
2004/05 ^(c)	2,517

^(a) Includes grades K-8, special education and home and hospital.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 9, 2004.

Labor Relations

The District employs 160 full-time equivalent certificated and 68 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

LOS GATOS UNION SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Los Gatos Elementary Teachers Association	136	June 30, 2006 ^(a)
Los Gatos Union Classified Employees Association	36	June 30, 2004 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX E — SANTA CLARA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Because the District's property tax revenue exceed its calculated revenue limit, the District is considered a basic aid district. Basic aid districts receive no additional State aid. Under current law, basic aid districts retain all local property tax revenues, and, as a result, receive more revenue limit income than is their revenue limit entitlement. The District expects a 2% increase in revenues from property taxes in fiscal year 2004/05. See "**GENERAL SCHOOL DISTRICT INFORMATION- State Funding of Education,**" "**GENERAL SCHOOL DISTRICT INFORMATION- Basic Aid Districts**" and "**— Average Daily Attendance**" herein.

LOS GATOS UNION SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$12,024,086	63.93%
2001/02 ^(a)	12,106,255	64.74
2002/03 ^(a)	12,578,183	66.89
2003/04 ^(b)	12,122,349	60.69
2004/05 ^(b)	12,357,256	62.28

^(a) Audited Financial Statements.

^(b) Estimated – Second Interim Report adopted on March 9, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects a reduction of five full-time equivalent certificated and a reduction of three full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 1.31% in the 2004/05 fiscal year.

LOS GATOS UNION SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$15,566,802	83.75%
2001/02 ^(a)	15,890,042	84.53
2002/03 ^(a)	16,473,390	86.44
2003/04 ^(b)	15,919,389	82.59
2004/05 ^(b)	16,127,613	84.66

^(a) Audited Financial Statements.

^(b) Estimated– Second Interim Report adopted on March 9, 2004.

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

LOS GATOS UNION SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources:			\$12,578,183	\$12,122,349	\$12,357,256
State Aid	\$ 467,854	\$ 255,708			
Property Taxes	11,556,232	11,850,547			
Federal Revenue	329,915	315,025	440,005	683,257	683,257
Other State Revenue	3,059,296	2,527,248	1,992,075	1,778,794	1,709,794
Other Local Revenue	3,393,823	3,752,265	3,793,929	5,388,247	5,092,021
Total Revenues	18,807,120	18,700,793	18,804,192	19,972,647	19,842,328
Expenditures					
Certificated Salaries	10,656,952	10,745,965	10,786,158	10,447,591	10,400,043
Classified Salaries	2,386,938	2,570,191	2,535,224	2,343,292	2,390,158
Employee Benefits	2,522,912	2,573,886	3,152,007	3,128,506	3,337,412
Books and Supplies	837,193	778,369	723,855	1,480,347	1,367,440
Services, Other Operating Expenses	1,594,012	1,907,044	1,856,847	1,844,570	1,581,950
Capital Outlay	370,835	252,146	26,240	49,318	0
Other Outgo	218,338	(29,739)	(22,832)	(19,153)	(26,340)
Total Expenditures	18,587,180	18,797,862	19,057,500	19,274,471	19,050,663
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	79,356	0	245,230	7,500	7,500
Interfund Transfers Out / Other Uses	(401,100)	(247,000)	(263)	0	0
Total Other Financing Sources/(Uses)	(321,744)	(247,000)	244,966	7,500	7,500
Excess of Revenues Over (Under) Expenditures	(101,804)	(344,069)	(8,342)	705,676	799,165
Beginning Fund Balance	1,592,042	1,490,238	1,146,169	1,137,827	1,843,503
Ending Fund Balance	\$ 1,490,238	\$ 1,146,169	\$ 1,137,827	\$ 1,843,503	\$ 2,642,668

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Estimated -- Second Interim Report adopted on March 9, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$3,250,000 in tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District secured and payable from general fund revenue received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "LOS GATOS UNION SCHOOL DISTRICT — Excerpts from Audited Financial Statements. June 30, 2003."

Subsequent to the date of the Audited Financial Statement, June 30, 2003, the District issued Election of 2001 General Obligation Bonds, Series B in the amount of \$25,000,000 on December 4, 2003.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.92 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

LOS GATOS UNION SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 1,943,502
Projected 2004/05 Cash Receipts (Including Note Proceeds)	23,039,578
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(19,050,663)</u>
Balance	\$ 5,932,417
Note Repayment	\$ 3,089,750
NOTE COVERAGE RATIO	1.92:1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES — Other District Funds" herein.

LOS GATOS UNION SCHOOL DISTRICT
Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance^(a)</u>	June 30, 2004, <u>Estimated Balance^(b)</u>	June 30, 2005, <u>Estimated Balance^(b)</u>
Special Revenue Funds			
Cafeteria	\$ 65,376	\$ 15,000	\$ 10,000
Deferred Maintenance	427,731	215,658	0
Subtotal for Special Revenue Funds	493,107	230,658	10,000
Capital Project Funds			
Building	33,901,855	24,319,956	14,300,500
Capital Facilities	828,142	644,474	209,913
Special Reserve (Capital)	4,735,119	5,486,040	3,500,000
Subtotal for Capital Project Funds	39,465,116	30,450,470	18,010,413
Total Alternate Liquidity	\$39,958,223	\$30,681,128	\$18,020,413

^(a) Audited Financial Statement.

^(b) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

LOS GATOS UNION SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Los Gatos Union School District
Los Gatos, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos Union School District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 3 through 8 and budgetary comparison information on page 36 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek Trine Day & Co. LLP

San Jose, California
October 10, 2003

LOS GATOS UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

This section of Los Gatos Union School District's (LGUSD) annual financial presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the transmittal letter of this report and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Strong reserve levels were maintained in the 2002-03 year. Available reserves at year-end were \$1,356,634 or 7.12% of total General Fund expenditures.
- Expenditures exceeded revenues in the General Fund by \$8,343, however, in the Unrestricted General Fund we generated a surplus of \$226,613.
- \$35 million in general obligation bonds were sold in fiscal year 2001-02 for construction and modernization projects throughout the District. Approximately \$17.4 million was spent on modernization projects in the 2002-03 fiscal year. An additional \$20 million in bonds will be issued in November 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds* statements tell how basic services like general and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

LOS GATOS UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

**Figure A-1
Major Features of the District wide and Fund Financial Statements
Fund Statements**

Characteristics	District-wide	Governmental Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary	Instances in which the District administers resources on behalf of someone else, such as student body activities
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures & changes in fund balances *Reconciliation to district-wide financial statements	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and Measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type or asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, Both short-term and long-term; standard funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenue and expenses during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

LOS GATOS UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

The two district-wide statements report the district's *net assets* and in the changes in net assets. Net assets (the difference between the District's assets and liabilities) are one way to measure the district's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are combined into one category:

- *Governmental activities* – The District's basic services are included here, such as regular and special education, food services, and administration. Property taxes, state apportionments, federal and state categorical resources and other local income resources finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant *funds*, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like cafeteria and deferred maintenance funds) or to show that it is properly using certain revenues, like federal grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) *how cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or difference) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the student body funds. The District is responsible for ensuring that the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

LOS GATOS UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's *combined* net assets were \$16.9 million on June 30, 2003. (See Table A-1.) All District net assets are the result of governmental activities.

<u>Table A-1</u>	
Los Gatos Union School District Net Assets (in millions of dollars)	
<u>Governmental Activities-2003</u>	
Current and Other Assets	34.0
Capital Assets	<u>23.6</u>
Total Assets	<u>\$57.6</u>
Long-term debt outstanding	34.0
Other Liabilities	<u>6.7</u>
Total Liabilities	<u>\$40.7</u>
<u>Invested in Capital assets net of related debt</u>	6.9
Restricted	8.7
Unrestricted	<u>1.3</u>
Total Net Assets	<u>\$16.9</u>

GOVERNMENTAL ACTIVITIES

Revenues for the District's governmental activities were \$23.3 million, while total expenses were \$21.5 million. The increase in net assets for governmental activities was \$1.8 million in 2003.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At year end, the District reported a *combined* fund balance of \$27.7 million. This includes \$24.2 million in capital project fund balances. The General Fund ended the year with a fund balance of \$1.1 million of which \$.2 million is restricted and \$.9 million is unrestricted.

LOS GATOS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, The District revised the annual operating budget several times due to updated projections and actual costs. Following are highlights of the largest changes.

- Net increase in revenue limit funding due to the district becoming a Basic Aid district.
- Net increases in both revenue and expense for federal, state and local grant awards.
- Actual revenues were \$720,038 higher than the final budget due mainly to the above noted items.
- Budgeted expense over revenue was anticipated to be \$710,747 but the actual deficit was \$8,343, again mainly due to the revenue increase.
- Actual salary expenditures were \$270,184 above original budget mainly due to staffing changes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2003, the District has invested \$23.6 million in a board range of capital assets including school buildings, computer and audio-visual equipment, and administrative offices. (See Table A-2) This represents an increase of approximately \$17.4 million over the prior year. Total depreciation expense for the year was \$460,684. Accumulated depreciation at year end was \$18.8 million.

Table A-2
Los Gatos Union School District Capital Assets
(net of accumulated depreciation)

Land	241,224
Buildings	3,845,306
Furniture and Equipment	336,156
Construction in Progress	19,154,577
Total	\$23,577,263

The District has a large balance of construction work in progress related to the modernization of Louise Van Meter and Raymond J. Fisher schools. Los Gatos Union School District's student enrollment is 2,581.

The District's fiscal year 2004 capital budget projects spending another \$16.03 million for capital projects, principally in the following areas:

- Construction, modernization and expansion of Van Meter and Fisher schools.
- Project planning at two elementary schools.

LOS GATOS UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

LONG-TERM DEBT

At year-end, the District has \$34 million in outstanding long-term debt. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.) In June 2001, voters authorized \$91 million in general obligation bonds to be issued over a period of six years. The first \$35 million in bonds were issued in October 30, 2001.

Bond Ratings

The District's general obligation bonds have carried the highest rating possible – AAA.

Limitations on Debt

The state limits the amount of general obligations debt the District can issue to 2.5 percent of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt is below this limit-which is currently \$67.4 million.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of two significant circumstances that could significantly affect its financial health in the future.

- The existing state budget shortfall of an estimated \$38 billion continues to add to the uncertainty at the District over budget and program planning for the 2003-04 year and beyond.
- The District has moved into Basic Aid status for the 2003-04 fiscal year. While normally this change would be of benefit to the District, it is unclear how much additional general revenue the District will receive because of 1) State proposals to eliminate Basic Aid Apportionment (\$120 per student) plus the requirement to fund a 1.5% deficit factor and 2) the uncertainties existing in the District's property tax base because of property tax appeals in the County of Santa Clara affecting \$29 billion in disputed assessed valuations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about his report or need additional financial information, contact the Business Office, Los Gatos Union School District, and 15766 Poppy Lane, Los Gatos, California 95030.

LOS GATOS UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Deposits and investments	\$ 33,249,251
Receivables	722,196
Due from other governmental units	32,679
Stores inventories	3,383
Capital assets	42,393,256
Less: Accumulated depreciation	(18,815,993)
Total assets	<u>\$ 57,584,772</u>
Liabilities	
Overdrafts	\$ 244
Accounts payable	3,251,714
Due to other governments	39,109
Deferred revenue	274,520
Current loans	3,074,792
Current portion of long-term obligations	980,662
Noncurrent portion of long-term obligations	33,054,182
Total liabilities	<u>40,675,223</u>
Net Assets	
Invested in capital assets, net of related debt	6,965,721
Restricted for:	
Debt service	1,430,832
Capital projects	6,433,444
Legally restricted	220,519
Special revenue	588,409
Unrestricted	1,270,624
Total net assets	<u>\$ 16,909,549</u>

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

LOS GATOS UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 12,855,470	\$ 535,349	\$ 1,204,338		\$(11,115,783)
Instruction related activities:					
Supervision of instruction	770,761	13,796	41,234		(715,731)
Instructional library, media and technology	244,676	67	8,596		(236,013)
School site administration	1,453,070	195	17,388		(1,435,487)
Pupil services:					
Home-to-school transportation	74,624	-	43,740		(30,884)
Food services	482,662	185,643	286,714		(10,305)
All other pupil services	710,335	124,234	199,117		(386,984)
General administration:					
All other general administration	1,585,589	9,483	24,632		(1,551,474)
Plant services	1,698,227	224	-		(1,698,003)
Interest on long-term debt	1,622,454	-	-		(1,622,454)
Other (outgo)	5,834	-	3,419		(2,415)
Total governmental-type activities	<u>21,503,702</u>	<u>868,991</u>	<u>1,829,178</u>		<u>(18,805,533)</u>
General revenues and subventions:					
Property taxes, levied for general purposes					12,086,845
Property taxes, levied for debt service					2,203,214
Taxes levied for other specific purposes					2,757,044
Federal and State aid not restricted to specific purposes					1,826,432
Interest and investment earnings					957,329
Transfers					679,384
Miscellaneous					104,056
Subtotal, general revenues					<u>20,614,304</u>
Change in net assets					1,808,771
Net assets - beginning					15,100,778
Net assets - ending					<u>\$ 16,909,549</u>

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

LOS GATOS UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Non Major Governmental Funds
ASSETS				
Deposits and investments	\$ 4,568,483	\$ 19,428,250	\$ 5,837,874	\$ 3,414,644
Receivables	570,399	98,953	18,966	33,878
Due from other funds	57,376	4,926	-	264
Due from other governments	32,679	-	-	-
Stores inventories	-	-	-	3,383
Total assets	\$ 5,228,937	\$ 19,532,129	\$ 5,856,840	\$ 3,452,169
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ -	\$ 244
Accounts payable	697,501	2,166,116	-	57,131
Due to other funds	5,189	28,711	-	28,666
Due to other governments	39,109	-	-	-
Other current Liabilities	3,074,792	-	-	-
Deferred revenue	274,520	-	-	-
Total Liabilities	4,091,111	2,194,827	-	86,041
Fund Balances:				
Reserved for:				
Stores inventories	-	-	-	3,383
Other reservations	220,519	-	-	-
Unreserved:				
Undesignated, reported in:				
General fund	917,307	-	-	-
Special revenue funds	-	-	-	585,026
Debt service funds	-	-	-	1,761,798
Capital projects funds	-	17,337,302	5,856,840	1,015,921
Total fund balance	1,137,826	17,337,302	5,856,840	3,366,128
Total Liabilities and Fund Balances	\$ 5,228,937	\$ 19,532,129	\$ 5,856,840	\$ 3,452,169

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

LOS GATOS UNION SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

Total Governmental Funds
\$ 33,249,251
722,196
62,566
32,679
3,383
<u>\$ 34,070,075</u>
\$ 244
2,920,748
62,566
39,109
3,074,792
274,520
<u>6,371,979</u>
3,383
220,519
917,307
585,026
1,761,798
24,210,063
<u>27,698,096</u>
<u>\$ 34,070,075</u>

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

Total Fund Balance - Governmental Funds		\$ 27,698,096
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	\$42,393,256	
Accumulated depreciation is	<u>(18,815,993)</u>	23,577,263
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(330,966)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	33,900,000	
Capital leases payable	48,844	
Compensated absences (vacations)	<u>86,000</u>	
		<u>(34,034,844)</u>
Total Net Assets - Governmental Activities		<u>\$ 16,909,549</u>

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

LOS GATOS UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds
REVENUES				
Revenue limit sources	\$12,578,180	\$ -	\$ -	\$ -
Federal sources	440,005	-	-	38,098
Other state sources	1,992,075	-	-	105,644
Other local sources	3,793,929	703,730	744,098	2,916,714
Total Revenues	18,804,189	703,730	744,098	3,060,456
EXPENDITURES				
Current				
Instruction	12,446,178	-	-	-
Instruction related activities:				
Supervision of instruction	770,761	-	-	-
Instructional library, media and technology	246,031	-	-	-
School site administration	1,453,070	-	-	-
Pupil Services:				
Home-to school transportation	74,624	-	-	-
Food services	408	-	-	489,165
All other pupil services	710,335	-	-	-
General administration:				
All other general administration	1,529,871	-	-	28,665
Plant services	1,683,065	24,309	-	-
Facility acquisition and construction	62,529	17,121,177	58,058	127,909
Debt service				
Principal	-	-	-	1,100,000
Interest and other	74,792	-	-	1,621,068
Total Expenditures	19,051,664	17,145,486	58,058	3,366,807
Excess (deficiency) of revenues over expenditures	(247,475)	(16,441,756)	686,040	(306,351)
Other Financing Sources (Uses):				
Transfers in	245,230	-	435,681	86,519
Transfers out	(264)	(122,797)	-	(644,369)
Other uses	(5,834)	-	-	-
Net Financing Sources (Uses)	239,132	(122,797)	435,681	(557,850)
NET CHANGE IN FUND BALANCES	(8,343)	(16,564,553)	1,121,721	(864,201)
Fund Balance - Beginning	1,146,169	33,901,855	4,735,119	4,230,329
Fund Balance - Ending	\$ 1,137,826	\$ 17,337,302	\$ 5,856,840	\$ 3,366,128

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

LOS GATOS UNION 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, 2003

Total Governmental Funds

\$ 12,578,180
478,103
2,097,719
8,158,471
<u>23,312,473</u>
12,446,178
770,761
246,031
1,453,070
74,624
489,573
710,335
1,558,536
1,707,374
17,369,673
1,100,000
1,695,860
<u>39,622,015</u>
(16,309,542)
767,430
(767,430)
(5,834)
<u>(5,834)</u>
(16,315,376)
44,013,472
<u>\$ 27,698,096</u>

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

Total Net Change in Fund Balances - Governmental Funds		\$ (16,315,376)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation expense	\$ (460,684)	
Capital outlays	<u>17,409,736</u>	16,949,052
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.) Vacation used was more than the amounts earned by \$1,689.		1,689
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		1,100,000
Repayment of capital leases are 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.		60,228
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 governmental funds when paid, 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.		13,178
Change in Net Assets of Governmental Activities		<u>\$ 1,808,771</u>

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

LOS GATOS UNION SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 26,822
Total assets	<u>\$ 26,822</u>
LIABILITIES	
Due to student groups	\$ 26,822
Total liabilities	<u>\$ 26,822</u>

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

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Los Gatos Union School District was organized in 1865 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through eighth. The District operates four elementary schools, and one middle school.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agency. This organization does not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. The organization is:

Santa Clara County Schools' Insurance Group

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 governmental funds:

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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.

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

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

Other Non-Major Governmental Funds

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

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

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

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 fund:

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.

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 fund:

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).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. 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 statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and 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. 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 function 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.

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

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

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

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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

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

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

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Deposits and Investments

The District's deposits and investments include cash on hand, demand deposits, and investments in state investment pools. Investments in state pools are reported at amortized cost which approximates fair market value.

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

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 and unused donated commodities. 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.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. 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 is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements 20 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 statement of net assets.

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in a fund but is disclosed as a component of general long-term debt.

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, and are payable in a timely manner from current financial resources, are reported as expenditures of the funds.

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

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, and legally restricted grants and entitlements.

Net Assets

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

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

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

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

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Cash

Cash at June 30, 2003, consists of the following:

	<u>Bank Balance</u>
Cash on hand and in banks	\$ 37,656
Cash in revolving fund	2,500
Cash with fiscal agent	3,609,026
Cash awaiting deposit	18,654
Total	<u>\$ 3,667,836</u>

	Governmental Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 7,500	\$ 26,822	\$ 34,322
Cash in revolving fund	2,500	-	2,500
Cash with fiscal agent	3,609,026	-	3,609,026
Cash awaiting deposit	16,932	-	16,932
	<u>\$ 3,635,958</u>	<u>\$ 26,822</u>	<u>\$ 3,662,780</u>

*These categories are as follows:

Investments

The District's investments consist primarily of deposits with the Santa Clara County Treasury. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. Deposits with County Treasury are recorded at amortized cost, which approximates fair value. The fair value of those deposits was provided by the County of Santa Clara.

The investments at June 30, 2003 had reported and fair values as follows:

	Reported in Governmental Funds	Fair Market Value
GNMA Securities	\$ 158,903	\$ 158,903
FHLMTG Securities	51,090	51,090
Uncategorized:		
U.S. Treasury	-	-
Deposits with County Treasurer	29,403,300	29,472,790
	<u>\$ 29,613,293</u>	<u>\$ 29,682,783</u>

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consist of the following:

	General	Building	Special Reserve Capital	Nonmajor Funds	Total
Federal Government					
Categorical aid	\$ 158,362	\$ -	\$ -	\$ 6,200	\$ 164,562
State Government					
Categorical aid	58,711	-	-	226	58,937
Lottery	168,652	-	-	-	168,652
Local Government					
Interest	23,073	98,953	18,569	22,746	163,341
Other Local Sources	194,280	-	397	4,706	199,383
Total	<u>\$ 603,078</u>	<u>\$ 98,953</u>	<u>\$ 18,966</u>	<u>\$ 33,878</u>	<u>\$ 754,875</u>

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 241,224	\$ -	\$ -	\$ 241,224
Construction in Progress	1,790,722	17,363,855	-	19,154,577
Total Capital Assets not being depreciated	2,031,946	17,363,855	-	19,395,801
Capital Assets being depreciated:				
Buildings and Improvements	22,308,763	-	-	22,308,763
Furniture and Equipment	642,811	45,881	-	688,692
Total Capital Assets being depreciated	22,951,574	45,881	-	22,997,455
Total Capital Assets	24,983,520	17,409,736	-	42,393,256
Less Accumulated Depreciation:				
Buildings and Improvements	18,054,547	408,910	-	18,463,457
Furniture and Equipment	300,762	51,774	-	352,536
Total Accumulated Depreciation	18,355,309	460,684	-	18,815,993
Governmental Activities Capital Assets, Net	<u>\$ 6,628,211</u>	<u>\$ 16,949,052</u>	<u>\$ -</u>	<u>\$ 23,577,263</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 420,611
All other general administration	33,964
Plant services	6,109
	<u>\$ 460,684</u>

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds are as follows:

	Due From			
	General	Building	Nonmajor Governmental	Total
Due To				
General	\$ -	\$ 4,926	\$ 263	\$ 5,189
Building	28,711	-	-	28,711
Nonmajor governmental	28,666	-	-	28,666
Total	\$ 57,377	\$ 4,926	\$ 263	\$ 62,566

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

LOS GATOS UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer from			Total
	General	Special Reserve Capital	Nonmajor Governmental	
General	\$ -	\$ -	\$ 264	\$ 264
Building	36,542	-	86,255	122,797
Nonmajor governmental	208,688	435,681	-	644,369
Total	\$ 245,230	\$ 435,681	\$ 86,519	\$ 767,430

The General Fund transferred to the Retiree Benefits Fund to cover negative fund balance.	\$ 249
The General Fund transferred to the Foundation Fund to cover negative fund balance.	15
The Building Fund transferred to the General Fund for bond administrator salary.	36,542
The Building Fund transferred to the Deferred Maintenance Fund for District match.	86,255
The Retiree Benefits Fund transferred to the General Fund to close the fund.	189,859
The Foundation Fund transferred to the General Fund to close the fund.	12,037
The Article XIII-B Fund transferred to the General Fund to close the fund.	6,792
The Article XIII-B Fund transferred to the Special Reserve - Capital Fund to close the fund.	435,681
Total	\$ 767,430

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building	Nonmajor Governmental	Total
Vendor payables	\$ 77,760	\$ 2,165,767	\$ 57,055	\$ 2,300,582
State apportionment	176,831	-	-	176,831
Interest	-	-	76	76
Salaries and benefits	442,910	349	-	443,259
Total	\$ 697,501	\$ 2,166,116	\$ 57,131	\$ 2,920,748

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General
Federal financial assistance	\$ 75,416
State categorical aid	26,194
Other local	172,910
Total	<u>\$ 274,520</u>

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance			Balance June 30, 2003	Due in One Year
	July 1, 2002	Additions	Deductions		
General obligation bonds	\$ 35,000,000	\$ -	\$ 1,100,000	\$ 33,900,000	\$ 850,000
Accumulated vacation - net	87,689	-	1,689	86,000	86,000
Capital leases	109,072	-	60,228	48,844	44,662
	<u>\$ 35,196,761</u>	<u>\$ -</u>	<u>\$ 1,161,917</u>	<u>\$ 34,034,844</u>	<u>\$ 980,662</u>

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. Payments for capital leases are paid from the general fund

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
				Outstanding July 1, 2002	Redeemed	Outstanding June 30, 2003
11/01/01	08/01/26	3.125-5.75%	35,000,000	<u>\$35,000,000</u>	<u>\$1,100,000</u>	<u>\$ 33,900,000</u>

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Debt Service Requirements to Maturity

The bonds mature through 2026 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 850,000	\$ 1,572,169	\$ 2,422,169
2005	50,000	1,554,575	1,604,575
2006	50,000	1,552,669	1,602,669
2007	300,000	1,547,013	1,847,013
2008	400,000	1,534,888	1,934,888
2009-2013	3,500,000	7,322,656	10,822,656
2014-2018	10,400,000	6,865,350	17,265,350
2019-2023	10,400,000	2,627,025	13,027,025
2024-2026	7,950,000	542,500	8,492,500
Total	<u>\$ 33,900,000</u>	<u>\$ 25,118,844</u>	<u>\$ 59,018,844</u>

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$94,978 with corresponding accumulated depreciation of \$33,750 at June 30, 2003. The District's liability on lease agreements with options to purchase are summarized below:

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 47,101
2005	4,266
Total	51,367
Less: Amount Representing Interest	2,523
Present Value of Minimum Lease Payments	<u>\$ 48,844</u>

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building	Special Reserve Capital	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventory	-	-	-	3,383	3,383
Restricted programs	218,019	-	-	-	218,019
Total Reserved	220,519	-	-	3,383	223,902
Unreserved					
Undesignated	917,307	17,337,302	5,856,840	3,362,745	27,474,194
Total Unreserved	917,307	17,337,302	5,856,840	3,362,745	27,474,194
Total	\$ 1,137,826	\$ 17,337,302	\$ 5,856,840	\$ 3,366,128	\$ 27,698,096

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 until age 65 with at least 10 years of service. Currently, 49 employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis.

The District had an actuarial study completed January 2003. The estimated future liability as of June 30, 2003 amounts to \$2,905,780 as determined by the actuarial study.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District participated in the Santa Clara County Schools' Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Workers' Compensation

For fiscal year 2003, the District participated in the Santa Clara County Schools' Insurance Group (SCCSIG), for workers' compensation coverage. The intent of the SCCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SCCSIG. 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 SCCSIG. 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." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SCCSIG. Participation in the SCCSIG is limited to districts that can meet the SCCSIG's selection criteria.

NOTE 13 – 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 2002-2003 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, 2003, 2002, and 2001, were \$935,258, \$858,382, and \$844,362, respectively, and equal 100 percent of the required contributions for each year.

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$68,438, \$0, and \$0, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$518,445 (4.475 percent of salaries subject to STRS) and \$2,213 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 14 - 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, 2003.

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment
Van Meter Elementary modernization	\$ 2,822,737
Fisher Middle modernization	10,154,704
Modernization at other sites	258,296
	<u>\$ 13,235,737</u>

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

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

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

LOS GATOS UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

- A. **Entity** Santa Clara County Schools' Insurance Group
- B. **Purpose** Provide health, workers' compensation and property liability coverage
- C. **Participants** Santa Clara County School Districts
- D. **Governing Board** One member from each participating district

E. Condensed Audited Financial Information Follows

		<u>June 30, 2002</u>
Assets		\$ 22,002,395
Liabilities		9,351,369
	Fund Equity	<u>\$ 12,651,026</u>
Revenues		\$ 20,818,065
Expenses		22,865,293
	Net (Decrease) in Fund Equity	<u>\$ (2,047,228)</u>

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

On July 2, 2003, the District issued \$3,000,000 in Tax and Revenue Anticipation Notes bearing interest at 2.5 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2003. By June 30, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded the cash available to make the principal and interest payments as Cash with Fiscal Agent and with the corresponding liability as a current loan.

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NOTE 17 - SUBSEQUENT EVENT

The District issued \$3,250,000 of Tax And Revenue Anticipation Notes dated July 1, 2003. The notes mature on July 2, 2004, and yield .9 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 May 2004.

MILPITAS UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Mike Mendizabal
President

William Foulk
Vice President

Marsha Grilli
Member

Barbara Santos
Clerk

Carmen Montano
Member

DISTRICT ADMINISTRATION

Dr. Karl Black
Superintendent

Karen Allen
*Assistant Superintendent,
Business Services*

GENERAL AND FINANCIAL INFORMATION

Introduction

The Milpitas Unified School District (the "District") provides educational services to the residents of the City of Milpitas and a small area of unincorporated land adjacent to Milpitas in Santa Clara County. The District serves a population of approximately 63,061.

The District operates nine elementary schools (K-6), two middle schools (7-8), one high school (9-12), one community day school (8-12), one continuation school (9-12), and one adult school.

The District's 2003/04 pupil-teacher ratios are 32:1 for K, 20:1 for grades 1-3, 32:1 for grades 4-8, and 33:1 for grades 9-12.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. Karl Black has served in this capacity since 2003.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

MILPITAS UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	9,250
2001/02 ^(b)	9,102
2002/03 ^(b)	9,166
2003/04 ^(c)	9,266
2004/05 ^(c)	9,266

^(a) Includes grades K-12, opportunity schools, home and hospital, special education and continuing education.

^(b) Audited Financial Statements.

^(c) Estimated – second period interim report adopted on March 9, 2004.

Labor Relations

The District employs 508 full-time equivalent certificated and 232 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District

MILPITAS UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	318	June 30, 2003
California Teachers Association	475	August 31, 2005

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX E – SANTA CLARA COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 0% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION – State Funding of Education**" and "**– Average Daily Attendance**" herein.

MILPITAS UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$43,119,443	69.49%
2001/02 ^(a)	43,743,341	71.43
2002/03 ^(b)	44,440,928	74.78
2003/04 ^(c)	43,806,164	74.72
2004/05 ^(d)	43,806,164	75.79

- (a) Audited Financial Statements.
 (b) Unaudited Financial Statement.
 (c) Second Interim Report adopted on March 9, 2004.
 (d) The District.
-

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no changes in the number of full-time equivalent certificated or full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 2.41% negotiated salary increase for certificated employees, and a 2.41% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to decrease by 1.27% in the 2004/05 fiscal year.

MILPITAS UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$51,118,168	83.52%
2001/02 ^(a)	53,466,174	84.47
2002/03 ^(b)	55,099,415	87.89
2003/04 ^(c)	53,456,972	86.20
2004/05 ^(d)	52,775,795	87.64

- (a) Audited Financial Statements.
 (b) Unaudited Financial Statement.
 (c) Second Interim Report adopted on March 9, 2004.
 (d) The District.
-

Comparative Financial Statements

The following table summarizes the District's revenues, expenditures, and fund balances from fiscal year 2000/01 through budget year 2004/05:

MILPITAS UNIFIED SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(d)
Revenues					
Revenue Limit Sources:			\$44,440,928	\$43,806,164	\$43,806,164
State Aid	\$ 6,239,954	\$ 3,661,640			
Property Taxes	36,879,489	40,081,701			
Federal Revenue	1,772,782	2,178,656	2,467,437	3,164,385	2,632,462
Other State Revenue	12,744,321	10,941,115	8,867,057	8,717,911	8,417,911
Other Local Revenue	1,983,265	1,954,006	3,656,183	2,941,618	2,941,618
Tuition and Transfers	2,434,781	2,422,973	0	0	0
Total Revenues	62,054,592	61,240,091	59,431,605	58,630,078	57,798,155
Expenditures					
Certificated Salaries	33,278,400	33,822,418	33,852,312	32,362,028	31,899,493
Classified Salaries	9,105,230	9,715,735	10,202,911	9,325,821	9,192,531
Employee Benefits	8,734,538	9,928,021	11,044,192	11,769,123	11,683,771
Books and Supplies	3,135,550	4,266,879	2,375,172	4,060,736	3,532,674
Services, Other Operating Expenses	3,793,241	4,006,989	4,008,453	3,785,367	3,293,115
Capital Outlay	1,706,683	730,743	348,040	372,617	324,162
Other Outgo	1,451,083	827,405	860,757	340,295	296,043
Total Expenditures	61,204,725	63,298,190	62,691,837	62,015,987	60,221,789
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	277,537	964,840	964,840	1,646,981	2,464,840
Interfund Transfers Out / Other Uses	(631,249)	(425,711)	(466,977)	(109,385)	(211,990)
Total Other Financing Sources/(Uses)	(353,712)	539,129	497,863	1,537,596	2,252,850
Excess of Revenues Over (Under) Expenditures	496,155	(1,518,970)	(2,762,369)	(1,848,313)	(170,784)
Beginning Fund Balance	10,297,373	10,793,528	9,274,554	6,512,185	4,663,872
Ending Fund Balance	\$10,793,528	\$ 9,274,558	\$ 6,512,185	\$ 4,663,872	\$ 4,493,088

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 9, 2004.

(d) The District.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$3,500,000 tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "MILPITAS UNIFIED SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Subsequent to the date of the Audited Financial Statements, June 30, 2003, the District entered into a lease-purchase agreement for fitness equipment for \$218,901.34 on July 11, 2003.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.68 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

MILPITAS UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 2,663,324
Projected 2004/05 Cash Receipts (Including Note Proceeds)	63,808,358
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(60,433,778)</u>
Balance	\$ 6,037,904
Note Repayment	\$ 3,604,708
NOTE COVERAGE RATIO	1.68 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES — Other District Funds" herein.

MILPITAS UNIFIED SCHOOL DISTRICT
Other District Funds

Fund	June 30, 2003, Balance ^(a)	June 30, 2004, Estimated Balance ^(b)	June 30, 2005, Estimated Balance ^(c)
Special Revenue Funds			
Adult Education	\$ 499,713	\$ 499,714	\$ 50,000
Cafeteria	25,517	27,278	25,000
Child Development	992,427	1,024,470	1,000,000
Deferred Maintenance	983,767	786,372	500,000
Subtotal for Special Revenue Funds	2,501,424	2,337,834	1,575,000
Capital Project Funds			
Building	12,170,431	3,754,629	2,438,000
Capital Facilities	791,311	563,531	350,000
County School Facilities	1,398,630	0	0
Subtotal for Capital Project Funds	14,360,372	4,318,160	350,000
Total Alternate Liquidity	\$16,861,796	\$ 6,655,994	\$2,788,000

^(a) Audited Financial Statement.

^(b) Second Interim Report adopted on March 9, 2004.

^(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

MILPITAS UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Education
Milpitas Unified School District
Milpitas, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milpitas Unified School District (The District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milpitas Unified School District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note #18 to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 02, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 3 through 10 and budgetary comparison information on page 39 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek Trine Day & Co. LLP

San Jose, California
October 2, 2003

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

This section of Milpitas Unified School District's (MUSD) 2002-03 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is the first year that Milpitas Unified School District is presenting financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34. Therefore, certain data is not available for the fiscal year ended June 30, 2002 for comparative analysis. Comparative analysis will be presented in future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Milpitas Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34 (the Statement).

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

The *Governmental Fund Financial Statements* include statements for each of the two categories of activities: governmental, and fiduciary.

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

The Fiduciary activities are private-purpose trust and agency funds. Agency funds only report a balance sheet and do not have a measurement focus.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

The Financial statements also include notes that explain some of the information in the statements and provide detailed data. The statements are followed by a section of required supplementary budget information that further explains and supports the financial statements.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

A fixed amount of funding per student, called the "revenue limit", established by the state legislature, determines the level of funding for most California school districts. Milpitas Unified School District's primary income source for its general fund is the revenue limit funding which was approximately \$4,681 per average daily attendance. Funded partly from property taxes and partly from state revenues, the revenue limit accounts for 75% of general fund revenues. Other state revenues such as special education allocations, class size reductions funds, lottery income and grants account for 15% of general fund revenues. Federal funds account for 4%, while local revenue sources including gifts account for 6% of revenues.

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Fund Financial Statements

The governmental 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 or 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 and other sources.

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*, 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.

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$63,266,637 as of June 30, 2003. Of this amount, \$4,584,897 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

	Governmental Activities
Current and other assets	\$ 33,973,874
Capital assets	97,997,222
Total Assets	131,971,096
Current liabilities	10,254,997
Long-term debt	58,449,462
Total Liabilities	68,704,459
Net assets	
Invested in capital assets, net of related debt	50,104,727
Restricted	8,577,013
Unrestricted	4,584,897
Total Net Assets	\$ 63,266,637

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 and rearranges it slightly so one can see our total revenues for the year.

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table 2

	Governmental Activities
Revenues	
Program revenues	
Charges for services	\$ 2,466,835
Operating grants and contributions	16,143,965
Capital grants and contributions	1,378,187
General revenues:	
State revenue limit sources	3,224,431
Property taxes	45,765,088
Other general revenues	6,871,742
Total Revenues	75,850,248
Expenses	
Instructional related	51,123,563
Student support services	6,485,661
Administration	4,978,976
Maintenance and operations	7,037,864
Other	8,789,617
Total Expenses	78,415,681
Net Change in Assets	(2,565,433)
Net Assets Beginning	65,832,070
Net Assets Ending	\$ 63,266,637

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$78,415,681. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$45,765,088 because part of the cost was paid by those who benefited from the programs (\$2,466,835) or by other governments and organizations who subsidized certain programs with grants and contributions (\$17,522,152). The remaining "public benefit" portion of our governmental activities was paid with \$45,765,088 in taxes, \$3,224,431 in State revenue limit funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's 6 largest functions, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. This information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table 3

	Total Cost of Services	Total Net Cost of Services
Instruction	\$ 43,580,146	\$ 31,469,234
Instruction Related	7,543,417	4,954,654
Pupil Services	6,485,661	3,318,402
Administration	4,978,976	4,319,654
Plant Services	6,596,496	6,210,164
Facility Acquisition	441,368	441,368
Totals	\$ 69,626,064	\$ 50,713,476

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$26,466,658, which is a decrease of \$9,531,695 from last year.

The primary reasons for the decrease are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased by \$2,762,373. This decrease is due to:
 1. Decreased State revenue
 2. Increase in special education unfunded mandates
- b. Our special revenue funds showed a net increase of \$399,666.
- c. The debt service funds showed a decrease of \$98,007.
- d. Our capital projects funds decreased by \$7,070,981 as funds were spent to upgrade school facilities.

General Fund Budgetary Highlights

The Education Code requires that all school Districts adopt a budget by July 1. Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 24, 2003. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 39).

- > Significant revenue revisions made to the 2002/03 Budget were due to mid year cuts and deferrals that was announced by the Governor after the budget adoption.
- > Budgeted expenditures increased by \$757,471 due to the collective bargaining settlement reached on March 6, 2003.
- > The District typically budgets to spend all of its restricted entitlement balances and site carryover monies. At year-end there is almost always a significant amount of these unspent restricted funds. This results in a favorable variance when comparing budget to actual. The ending fund balance favorable variance at June 30, 2003, comparing final budget to actual, was \$2,287,814. Approximately \$2.1 million of this variance is attributable to the aforementioned unspent restricted ending balances.

MILPITAS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$128,133,179 in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 4

	Governmental Activities
Land	\$ 2,766,008
Construction in progress	1,424,125
Buildings and improvements	121,789,709
Equipment	2,153,337
Totals	\$128,133,179
Less accumulated depreciation	30,135,957
Total	\$ 97,997,222

Current year additions of \$9,733,757 included several building improvements and portables. Current year depreciation was \$4,228,208.

Several capital projects are planned for the 2003-04 year. We anticipate capital additions to be approximately \$4,000,000 for the 2003-04 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Long-Term Debt

At the end of this year, the District had \$59,635,000 in general obligation bonds outstanding versus \$60,995,000 last year, a decrease of 2.3 percent. Table 5 provides a breakdown of total long-term debt as of June 30, 2003:

Table 5

	Governmental
	Activities
General obligation bonds	\$59,635,000
Accumulated vacation net	113,731
Capital Leases	60,206
Arbitrage Liability	130,720
Property Improvement Bond	237,000
	\$60,176,657

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. The District's outstanding general obligation debt of \$59,635,000 is significantly below this limit.

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003/2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income will decrease due to the deficit.
2. Interest earnings will remain flat.
3. Developer fee collections will remain flat.
4. Federal income will decrease by 2.3 %.
5. State income will decrease by 13.2 percent.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	2905
Grades four through eight	32:1	3690
Grades nine through twelve	33:1	2921

MILPITAS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Milpitas Unified School District, 1331 E. Calaveras Blvd., Milpitas, California, 95035 (408) 954-2304.

MILPITAS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Deposits and investments	\$ 24,275,655
Receivables	9,163,515
Prepaid expenses	220,401
Stores inventories	314,303
Capital assets	128,133,179
Less: Accumulated depreciation	(30,135,957)
Total assets	<u>131,971,096</u>
Liabilities	
Overdrafts	4,323,873
Accounts payable	3,456,584
Deferred revenue	747,345
Current portion of long-term obligations	1,727,195
Noncurrent portion of long-term obligations	58,449,462
Total liabilities	<u>68,704,459</u>
Net Assets	
Invested in capital assets, net of related debt	50,104,727
Restricted for:	
Legally restricted	1,813,582
Capital projects	2,189,941
Special revenue	2,501,424
Debt service	2,072,066
Unrestricted	4,584,897
Total net assets	<u>\$ 63,266,637</u>

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

MILPITAS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 43,580,146	\$ 428,540	\$ 10,304,185	\$ 1,378,187	\$ (31,469,234)
Instruction related activities:					
Supervision of instruction	1,698,141	5,341	1,066,983	-	(625,817)
Instructional library, media and technology	282,505	-	33,416	-	(249,089)
School site administration	5,562,771	94,449	1,388,574	-	(4,079,748)
Pupil services:					
Home-to-school transportation	454,571	22,866	126,069	-	(305,636)
Food services	2,519,449	1,450,370	959,487	-	(109,592)
All other pupil services	3,511,641	11,291	597,176	-	(2,903,174)
General administration:					
Data processing	1,036,405	-	5,066	-	(1,031,339)
All other general administration	3,942,570	106,280	547,976	-	(3,288,314)
Plant services	6,596,496	139,526	246,806	-	(6,210,164)
Facility acquisition and construction	441,368	-	-	-	(441,368)
Ancillary services	186,878	18	4	-	(186,856)
Interest on long-term debt	3,145,565	-	-	-	(3,145,565)
Other outgo	1,228,967	208,154	868,223	-	(152,590)
Depreciation (unallocated)	4,228,208	-	-	-	(4,228,208)
Total governmental-type activities	<u>78,415,681</u>	<u>2,466,835</u>	<u>16,143,965</u>	<u>1,378,187</u>	<u>(58,426,694)</u>
General revenues and subventions:					
Property taxes, levied for general purposes					41,272,599
Property taxes, levied for debt service					4,321,402
Taxes levied for other specific purposes					171,087
Federal and State aid not restricted to specific purposes					6,363,640
Interest and investment earnings					415,920
Miscellaneous					3,316,613
Subtotal, general revenues					<u>55,861,261</u>
Change in net assets					(2,565,433)
Net assets - beginning					65,832,070
Net assets - ending					<u>\$ 63,266,637</u>

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

MILPITAS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 3,977,777	\$ 12,981,632	\$ 7,316,246	\$ 24,275,655
Receivables	3,546,304	94,274	5,522,937	9,163,515
Due from other funds	881,932	-	260,410	1,142,342
Prepaid expenses	220,401	-	-	220,401
Stores inventories	211,043	-	103,260	314,303
Total assets	\$ 8,837,457	\$ 13,075,906	\$ 13,202,853	\$ 35,116,216
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ 4,323,873	\$ 4,323,873
Accounts payable	1,354,718	846,969	234,311	2,435,998
Due to other funds	256,886	58,506	826,950	1,142,342
Deferred revenue	713,668	-	33,677	747,345
Total liabilities	2,325,272	905,475	5,418,811	8,649,558
Fund Balances:				
Reserved for:				
Stores inventories	211,042	-	103,260	314,302
Other reservations	1,602,540	-	2,385	1,604,925
Unreserved:				
Designated	3,274,205	7,984,645	586,846	11,845,696
Undesignated, reported in:				
General fund	1,424,398	-	-	1,424,398
Special revenue funds	-	-	1,919,436	1,919,436
Debt service funds	-	-	3,092,652	3,092,652
Capital projects funds	-	4,185,786	2,079,463	6,265,249
Total fund balance	6,512,185	12,170,431	7,784,042	26,466,658
Total Liabilities and Fund Balances	\$ 8,837,457	\$ 13,075,906	\$ 13,202,853	\$ 35,116,216

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

MILPITAS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:			
	Total Fund Balance - Governmental Funds		\$ 26,466,658
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	\$ 128,133,179	
	Accumulated depreciation is	<u>(30,135,957)</u>	97,997,222
In governmental funds, interest on long-term debt is recognized in the period when it is paid. On the government-wide statements interest on long-term debt is recognized as it accrues.			
			(1,020,586)
Long-term liabilities at year end consist of:			
	Bonds payable	59,635,000	
	Capital leases payable	60,206	
	Compensated absences (vacations)	113,731	
	Arbitrage Liability	130,720	
	Property improvement bond	<u>237,000</u>	(60,176,657)
	Total Net Assets - Governmental Activities		\$ 63,266,637

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

MILPITAS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 44,440,927	\$ -	\$ 1,215,314	\$ 45,656,241
Federal sources	2,467,437	-	1,796,413	4,263,850
Other state sources	8,867,057	-	4,637,451	13,504,508
Other local sources	3,656,183	2,075,286	6,694,180	12,425,649
Total Revenues	59,431,604	2,075,286	14,343,358	75,850,248
EXPENDITURES				
Current				
Instruction	40,143,608	-	3,723,308	43,866,916
Instruction related activities:				
Supervision of instruction	1,556,018	-	147,251	1,703,269
Instructional library and technology	285,771	-	-	285,771
School site administration	4,500,871	-	1,063,865	5,564,736
Pupil Services:				
Home-to school transportation	454,571	-	-	454,571
Food services	4,124	-	2,518,507	2,522,631
All other pupil services	3,414,994	-	96,647	3,511,641
General administration:				
Data processing	1,094,991	-	-	1,094,991
All other general administration	3,588,777	-	362,809	3,951,586
Plant services	5,990,776	610,605	102,807	6,704,188
Facility acquisition and construction	225,049	8,377,998	1,105,489	9,708,536
Ancillary services	186,878	-	-	186,878
Debt service				
Principal	-	91,878	1,360,000	1,451,878
Interest and other	16,445	30,954	3,097,985	3,145,384
Total Expenditures	61,462,873	9,111,435	13,578,668	84,152,976
Excess of revenues over expenditures	(2,031,269)	(7,036,149)	764,690	(8,302,728)
Other Financing Uses:				
Transfers in	964,840	-	466,977	1,431,817
Transfers out	(466,977)	(964,840)	-	(1,431,817)
Other uses	(1,228,967)	-	-	(1,228,967)
Net Financing Uses	(731,104)	(964,840)	466,977	(1,228,967)
NET CHANGE IN FUND BALANCES	(2,762,373)	(8,000,989)	1,231,667	(9,531,695)
Fund Balance - Beginning	9,274,558	20,171,420	6,552,375	35,998,353
Fund Balance - Ending	\$ 6,512,185	\$12,170,431	\$ 7,784,042	\$ 26,466,658

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

MILPITAS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

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

Total Net Change in Fund Balances - Governmental Funds \$ (9,531,695)

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

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

Capital outlays	\$ 9,733,757	
Depreciation expense	(4,228,208)	5,505,549

Compensated absences are measured by amounts earned during the year in the statement of activities. In the governmental funds, these items are measured by amounts actually paid. Vacation earned was less than the amount paid by \$9,015.

9,015

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 paid, 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 paid.

(180)

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

1,451,878

Change in Net Assets of Governmental Activities \$ (2,565,433)

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

MILPITAS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS
JUNE 30, 2003**

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 13,778	\$ 550,351
Total assets	<u>13,778</u>	<u>550,351</u>
LIABILITIES		
Due to student groups	-	550,351
Total liabilities	<u>-</u>	<u>550,351</u>
NET ASSETS		
Reserved for scholarships	13,778	-
Total Net Assets	<u>\$ 13,778</u>	<u>\$ -</u>

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

MILPITAS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	Scholarship Trust
ADDITIONS	
District contributions and interest earned	\$ 6,999
DEDUCTIONS	
Scholarships awarded	7,330
Change in Net Assets	(331)
Net Assets - Beginning	14,109
Net Assets - Ending	<u>\$ 13,778</u>

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

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Milpitas Unified School District was unified in December 1968 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary, two middle schools and one high school. The District also maintains a continuation high school, an adult education school, two child care centers, a community day school, and a correctional facilities education program.

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

Joint Power Authorities and Public Entity Risk Pools The District is associated with two joint power authorities and two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

South Bay Area Schools Insurance Authority (SBASIA)
Santa Clara County Schools Insurance Group (SCCSIG)
Metropolitan Education District (Metro ED)
East Valley Schools Transportation Authority (EVT)

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 governmental funds: General Fund, and Building Fund.

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.

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Other Non-Major Governmental Funds

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

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

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

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

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

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.

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:

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: scholarship trust fund, and agency funds.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship trust funds. 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 statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and 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. 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 function 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.

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

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

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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

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

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

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

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

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Investments

Investments held at June 30, 2003, 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 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.

Prepaid Expenditures

Prepaid expenditures 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 over the benefiting period.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide statements of net assets and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation of capital assets is computed using 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 statement of net assets.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability in the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in the statements but is shown as a component of general long-term debt.

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 employees subject to a collective bargaining agreement who retire after January 1, 1999. At retirement, each classified employee 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 from current financial resources, are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

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, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been 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.

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Net Assets

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

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

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

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Cash

Cash at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 139,171	\$ 658,529	\$ 797,700
Cash in revolving fund	17,835	-	17,835
Total	\$ 157,006	\$ 658,529	\$ 815,535

	Governmental	Fiduciary	Total
	Carrying	Carrying	
	Amount	Amount	
Cash on hand and in banks	\$ 221,255	\$ 564,129	\$ 785,384
Cash in revolving fund	17,385	-	17,385
Cash awaiting deposit	44,964	-	44,964
	\$ 283,604	\$ 564,129	\$ 847,733

*These categories are as follows:

Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Investments

Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury and State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county.

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Reported in Governmental Funds	Fair Value
Uncategorized:		
Deposits with county treasurer	\$ 23,992,051	\$ 24,050,592
Less deficit cash	4,323,873	4,334,423
Total	\$ 19,668,178	\$ 19,716,169

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building	Nonmajor	Total
Federal Government				
Categorical aid	\$ 677,802	\$ -	\$ 462,415	\$ 1,140,217
State Government				
Apportionment	421,444	-	4,496,351	4,917,795
Categorical aid	1,115,691	-	341,837	1,457,528
Lottery	510,466	-	-	510,466
Local Government				
Interest	51,837	58,884	26,359	137,080
Other Local Sources	769,064	35,390	195,975	1,000,429
Total	\$ 3,546,304	\$ 94,274	\$ 5,522,937	\$ 9,163,515

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Balance June 30, 2003
Governmental Activities			
Capital Assets not being depreciated:			
Land	\$ 2,766,008	\$ -	\$ 2,766,008
Construction in Progress	-	1,424,125	1,424,125
Total Capital Assets not being depreciated	2,766,008	1,424,125	4,190,133
Capital Assets being depreciated:			
Buildings and Improvements	114,101,358	7,688,351	121,789,709
Furniture and Equipment	1,532,056	621,281	2,153,337
Total Capital Assets being depreciated	115,633,414	8,309,632	123,943,046
Total Capital Assets	118,399,422	9,733,757	128,133,179
Less Accumulated Depreciation:			
Buildings and Improvements	25,148,025	4,055,406	29,203,431
Furniture and Equipment	759,724	172,802	932,526
Total Accumulated Depreciation	25,907,749	4,228,208	30,135,957
Governmental Activities Capital Assets, Net	\$ 92,491,673	\$ 5,505,549	\$ 97,997,222

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payables for the year ended of June 30, 2003, consisted of the following:

	Due From		
	General	Nonmajor Governmental	Total
General	\$ -	\$ 256,886	\$ 256,886
Cafeteria Fund	582,765	-	582,765
Building	58,506	-	58,506
Nonmajor governmental	240,661	3,524	244,185
Total	\$ 881,932	\$ 260,410	\$ 1,142,342

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

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

	Transfer from		
	General	Building	Total
General	\$ -	\$ 964,840	\$ 964,840
Cafeteria	119,846	-	119,846
Nonmajor governmental	347,131	-	347,131
Total	\$ 466,977	\$ 964,840	\$ 1,431,817

The Building Fund transferred to the General Fund for both the Deferred Maintenance match and Routine Maintenance cost reimbursement	\$ 964,840
The General Fund transferred to the Cafeteria Fund to reimburse meals for needy	119,846
The General Fund transferred to the Deferred Maintenance Fund for the required deferred maintenance match.	347,131
Total	\$ 1,431,817

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building Fund	Nonmajor Governmental	Total
Vendor payables	\$ 805,699	\$ 837,693	\$ 155,136	\$ 1,798,528
State apportionment	111,972	-	-	111,972
Salaries and benefits	437,047	9,276	79,175	525,498
Total	\$ 1,354,718	\$ 846,969	\$ 234,311	\$ 2,435,998

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 320,650	\$ 1,600	\$ 322,250
State categorical aid	393,018	32,077	425,095
Total	\$ 713,668	\$ 33,677	\$ 747,345

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance July 1, 2002	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds	\$ 60,995,000	\$ 1,360,000	\$ 59,635,000	\$ 1,390,000
Accumulated vacation - net	122,746	9,015	113,731	113,731
Capital leases	74,084	13,878	60,206	14,744
Arbitrage liability	130,720	-	130,720	130,720
Property improvement bond	315,000	78,000	237,000	78,000
Total	\$ 61,637,550	\$ 1,460,893	\$ 60,176,657	\$ 1,727,195

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
				Outstanding July 1, 2002	Redeemed	Outstanding June 30, 2003
8/1/1996	9/1/2020	3.5-4.7%	\$20,000,000	\$ 785,000	\$ 250,000	\$ 535,000
11/1/2001	9/1/2020	4%	17,250,000	17,250,000	300,000	16,950,000
6/1/1998	9/1/2020	4.5-7.5%	24,700,000	23,150,000	300,000	22,850,000
6/1/2000	9/1/2020	5.0-12.0%	20,000,000	19,810,000	510,000	19,300,000
				<u>\$60,995,000</u>	<u>\$1,360,000</u>	<u>\$59,635,000</u>

Debt Service Requirements to Maturity

The bonds mature through 2028 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 1,390,000	\$ 3,004,157	\$ 4,394,157
2005	1,555,000	2,898,419	4,453,419
2006	1,720,000	2,796,332	4,516,332
2007	1,875,000	2,692,819	4,567,819
2008	1,970,000	2,601,044	4,571,044
2009-2013	11,105,000	11,651,068	22,756,068
2014-2018	13,710,000	8,832,023	22,542,023
2019-2023	17,680,000	4,970,623	22,650,623
2024-2028	8,630,000	514,356	9,144,356
Total	<u>\$59,635,000</u>	<u>\$39,960,841</u>	<u>\$99,595,841</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$113,731.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Capital Leases

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 18,084
2005	18,084
2006	18,084
Thereafter	13,558
Total	<u>67,810</u>
Less: Amount Representing Interest	7,604
Present Value of Minimum Lease Payments	<u>\$ 60,206</u>

Arbitrage Liability

Arbitrage is the excess of interest earned by a governmental unit on bond proceeds over interest paid to bond holders. The liability was paid in full on July 8, 2003.

Property Improvement Bonds

The District is liable for improvement bonds related to a property that the District leased to a developer in 1988 under long-term lease. Payments on these bonds are made by the Developer in accordance with the lease.

Property improvement bonds outstanding as of June 30, 2003 are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
				Outstanding July 1, 2002	Redeemed	Outstanding June 30, 2003
10/6/89	9/25/05	6.85%-7.15%	\$ 1,609,500	\$ 315,000	\$ 78,000	\$ 237,000

Debt Service Requirements to Maturity

Fiscal Year	Interest to		Total
	Principal	Maturity	
2004	\$ 78,000	\$ 14,079	\$ 92,079
2005	78,000	8,261	86,261
2006	81,000	2,596	83,596
Total	<u>\$ 237,000</u>	<u>\$ 24,936</u>	<u>\$ 261,936</u>

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 – FUND BALANCES

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

	General	Building Fund	Nonmajor Governmental	Total
Reserved				
Revolving cash	\$ 15,000	\$ -	\$ 2,385	\$ 17,385
Stores inventory	211,042	-	103,260	314,302
Prepaid expenditures	220,401	-	-	220,401
Restricted programs	1,367,139	-	-	1,367,139
Total Reserved	1,813,582	-	105,645	1,919,227
Unreserved				
Designated				
Economic uncertainties	2,526,353	-	-	2,526,353
Other designation	747,852	7,984,645	586,846	9,319,343
Total Designated	3,274,205	7,984,645	586,846	11,845,696
Undesignated	1,424,398	4,185,786	7,091,551	12,701,735
Total Unreserved	4,698,603	12,170,431	7,678,397	24,547,431
Total	\$ 6,512,185	\$ 12,170,431	\$ 7,784,042	\$ 26,466,658

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service. Currently, 134 employees meet those eligibility requirements. The District provides medical and dental benefits up to a maximum of \$621 and \$125 per month respectively. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$703,312 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$3,204,304. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with South Bay Area Schools Insurance Authority and Westchester Life Insurance Company 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 2003, the District participated in the Santa Clara County Schools Insurance Group (the Group), an insurance purchasing pool. The purpose of the Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other group participants. 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 Group. 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." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Group. Participation in the Group is limited to districts that can meet the selection criteria. The firm of Keehan & Associates provides administrative, cost control, and actuarial services to the Group.

The following is a summary of the insurance policies carried by the District as of June 30, 2003.

Insurance Program / Company Name	Type of Coverage	Limits
Santa Clara County Schools Insurance Group *	Workers' Compensation	Statutory
South Bay Area Schools Insurance Authority *	Property and Liability	\$5000- \$341,002
Westchester Fire Insurance Company	Property and Liability	\$100,001- \$638,154,462
Schools Excess Liability Fund (SELF)	Excess Property and Liability	\$1,000,000- \$14,000,000
Hartford Steam Boiler	Boiler and Machinery	\$5,000- \$1,75,000

*See note 15 for condensed financial information for these entities.

NOTE 13 – 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).

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 2002-2003 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, 2003, 2002, and 2001, were \$2,932,930, \$2,784,584, and \$2,754,564, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003 were \$291,463. There were no required District contributions for the fiscal years ending June 30, 2002 and 2001.

MILPITAS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to STRS.

Tax Deferred Annuity/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 use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately.

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 \$1,628,246 (4.475 percent of salaries subject to STRS) and \$9,413 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 14 - 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, 2003.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECT		
Milpitas High School Athletic Field Improvement	\$ 2,830,881	03/01/04
Multiuse Conversions Centers at Rose and Spangler and Weller School	822,750	11/15/03
Roofing at Rose School	117,680	11/15/03
	<u>\$ 3,771,311</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The following data is condensed audited financial information for the Public Entity Risk Pools and Joint Power Authorities to which the District belongs:

	SBASIA	SCCSIG	Metro ED	EVT
	June 30, 2002*	June 30, 2002*	June 30, 2002*	June 30, 2002*
Assets	\$ 4,810,272	\$ 22,002,395	\$ 14,449,969	\$ 604,858
Liabilities	(1,751,671)	(9,351,369)	(7,197,081)	(335,834)
Fund Equity	<u>\$ 3,058,601</u>	<u>\$ 12,651,026</u>	<u>\$ 7,252,888</u>	<u>\$ 269,024</u>
Revenues	1,326,357	20,818,065	24,211,685	3,182,730
Expenses	(1,218,075)	(22,865,293)	(24,992,868)	(3,182,730)
Net Increase (Decrease) in Fund Equity	<u>\$ 108,282</u>	<u>\$ (2,047,228)</u>	<u>\$ (781,183)</u>	<u>\$ -</u>
Payments for the Current Year	<u>\$ 182,387</u>	<u>\$ 1,070,227</u>	<u>\$ 590,176</u>	<u>\$ 601,009</u>

*Latest information available.

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

The District issued \$3,500,000 Tax and Revenue Anticipation Notes dated July 2, 2002. The notes mature on July 1, 2003 at 3.00% interest.

MILPITAS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 17 - SUBSEQUENT EVENT

The District issued \$3,500,000 of Tax and Revenue Anticipations Notes dated July 1, 2003. The notes mature on June 30, 2004 at 1.50 % interest. The notes were sold to supplement cash flow.

NOTE 18 - DEFERRED STATE APPORTIONMENTMENTS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB)X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for the and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current -year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home to School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves in the general fund of \$426,604.

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PETALUMA JOINT UNION HIGH SCHOOL DISTRICT

BOARD OF EDUCATION

Camille Sauvé
President

(Vacant)
Clerk

Christina Kauk
Member

Carolyn Tennyson
Member

Lou Steinberg
Member

DISTRICT ADMINISTRATION

Dr. Margaret Viguie
Superintendent

Steve Bolman
*Deputy Superintendent, Business and
Administration*

GENERAL AND FINANCIAL INFORMATION

Introduction

Petaluma Joint Union High School District (the "High School District"), the forerunner of which was originally formed in 1857, provides educational services to the residents of the City and the surrounding area of Sonoma County, and a small portion of Marin County, approximately 40 miles north of San Francisco. The High School District encompasses an area of approximately 275 square miles. The District's total estimated population is approximately 62,000.

The High School District has two middle schools (grades 7 - 8), two high schools (grades 9 - 12), one continuation high school, two Necessary Small Continuation High Schools (30 student programs, one at each high school), one Community Day School (16 students grades 7-8) and one adult school. These schools comprise a total of approximately 411,794 square feet of building area.

The High School District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent. Dr. Greta Viguie has served in this capacity since November 18, 2002. The same Board of Education and administration also manage the Petaluma City (Elementary) School District (the "Elementary District"; together, the High School District and the Elementary District are the "Districts" herein).

The 2003/04 pupil-teacher ratios are expected to be as follows:

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT Pupil - Teacher Ratios

<u>Grade</u>	<u>Ratio</u>
7-8	26 to 1
9-12	28 to 1

Source: The Districts.

Combined Operations

Under the provisions enacted by Assembly Bill 1475 in 1982, Article 1.5 of Chapter 2 of Part 21 of Division 3 of Title 2 of the California Education Code provides that separate school districts with a common board of education, common administration and employees represented by common bargaining units may conduct operations and financial reporting on a combined basis as if they were one district. The High School District and the Elementary District are one of six such paired school districts currently conducting operations and financial reporting on a combined basis in the State. The Districts' financial reporting to the State and their annual audited financial report are both combined. See "**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT - PETALUMA JOINT UNION SCHOOL DISTRICT - Excerpts from Audited Financial Statements, June 30, 2003.**"

The Districts' internal accounting procedure is to record separately, by district, any revenue designated as to district by the source of that revenue and direct expenses internally identified as to location, and to record as common any revenue and expenses not so designated or identified. Cash is commingled in

common bank accounts and investments. At year end, fund balances are subject to transfer between the Districts; a fund balance in either of the Districts may be used to balance the corresponding fund in the other by action of the Districts' Board of Education. While operating on a combined financial and management basis, the Districts nevertheless remain legally separate governmental entities and issue their own, separate securities.

Average Daily Attendance

The following table reflects the High School District's historical second period A.D.A. for the last four years and a projection for 2004/05.

**PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Average Daily Attendance Second Period Report**

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	5,019
2001/02 ^(b)	5,062
2002/03 ^(b)	5,218
2003/04 ^(c)	5,321
2004/05 ^(c)	5,438

- (a) Includes grades 7 through 12.
 (b) Audited Financial Statements.
 (c) Estimated.
-

Labor Relations

The High School District employs 296.75 full-time equivalent certificated and 177.02 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the Districts.

**PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Formal Bargaining Organizations**

<u>Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
California School Employees Association	321	June 30, 2004 ^(a)
Petaluma Federation of Teachers	336	June 30, 2006

- (a) Tentative agreement.
-

Source: The District.

Investment of District Funds

Substantially all of the Districts' operating funds are held by the Sonoma County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment

program is generally coordinated on a “pooled” basis. See “**APPENDIX G – SONOMA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT**” herein.

2004/05 Budget Assumptions

The 2004/05 data in the comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the Districts. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit (“COLA”) established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See “**GENERAL SCHOOL DISTRICT INFORMATION– State Funding of Education**” and “**–Average Daily Attendance**” herein.

**PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Revenue Limit Income**

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$26,329,551	73.71%
2001/02 ^(a)	27,897,128	75.66
2002/03 ^(b)	30,044,266	76.50
2003/04 ^(c)	30,355,990	78.18
2004/05 ^(c)	30,535,783	79.54

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Estimated – Second Interim Report adopted on March 9, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of “step and column” on the salary scale results in increased expenditures (if no other staffing changes are made).

The High School District expects no increase in certificated or classified employees for the 2004/05 fiscal year. The High School District expects no negotiated salary increases for certificated employees and classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 1.59% in the 2004/05 fiscal year.

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$28,526,229	78.75%
2001/02 ^(a)	29,506,412	81.06
2002/03 ^(b)	31,425,650	81.40
2003/04 ^(c)	32,107,925	80.65
2004/05 ^(c)	32,618,617	83.42

a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Estimated- Second Interim Report adopted on March 9, 2004.

Comparative Financial Statements

The following table summarizes actual and estimated revenues, expenditures and fund balances for fiscal year 2001/02 through 2004/05 for the High School District only, and does not include the Elementary District. The format shown is that used by the Districts for internal accounting, budgeting and periodic reporting to the County Office and the State, and by the Districts' auditors in preparing audited financial statements for the Districts for years prior to the year ended June 30, 2003. Audited financial statements commencing with the year ended June 30, 2003 are prepared under GASB 34, and with respect to line items, generally are not comparable to prior years audited financial statements or the Districts' internal accounting, budgeting or reports to the County Office and the State. For the Districts' independent auditor's letter, management's discussion and analysis and audited basic financial statements for the year ended June 30, 2003, all prepared on a combined basis for the Districts according to GASB 34, see "**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT - PETALUMA JOINT UNION SCHOOL DISTRICT - Excerpts from Audited Financial Statements, June 30, 2003**" herein.

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
General Fund Revenues, Expenditures and Fund Balances

	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
REVENUE:				
Revenue Limit Sources:				
State Aid	\$15,727,520	\$15,637,093	\$15,581,160	\$15,844,611
Property Taxes	12,169,608	14,407,173	14,744,830	14,691,172
Federal Revenue	1,044,824	1,239,575	1,683,285	1,306,505
Other State Revenue	4,201,797	4,006,462	3,388,618	3,175,874
Other Local Revenue	3,730,315	3,983,243	3,399,702	3,373,542
TOTAL REVENUE	36,874,064	39,273,547	38,827,595	38,391,704
EXPENDITURES				
Certificated Salaries	17,568,081	18,584,124	18,529,112	18,833,483
Classified Salaries	6,010,254	6,382,318	6,508,948	6,362,073
Employee Benefits	5,928,077	6,459,208	7,069,865	7,423,062
Books and Supplies	1,633,621	1,644,038	2,091,395	1,166,823
Services and Other Operating Expenditures	4,165,942	4,224,408	4,912,338	4,710,769
Capital Outlay	630,028	78,812	237,005	177,017
Other	463,031	1,231,510	462,232	427,570
TOTAL EXPENDITURES	36,399,034	38,604,418	39,810,894	39,100,795
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	475,010	669,129	(983,299)	(709,091)
FUND BALANCE, JULY 1	2,365,712	2,840,722	3,508,887	2,525,588
PRIOR YEAR ADJUSTMENT	0	(964)	0	0
FUND BALANCE, JUNE 30	\$2,840,722	\$3,508,887	\$2,525,588	\$1,816,497

^(a) Audited Financial Statements.

^(b) Unaudited Financial Statement.

^(c) Estimated – Second Interim Report adopted on March 9, 2004.

District Debt

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

The District does not have any short-term obligations.

Long-Term Obligations. For a description of the District's long-term debt, see "**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT – PETALUMA JOINT UNION HIGH SCHOOL DISTRICT – Excerpts from Audited Financial Statements, June 30, 2003.**"

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.18 times the principal and interest due on the Notes at maturity. See “**THE NOTES — Security and Sources of Payment**” herein.

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 1,623,039
Projected 2004/05 Cash Receipts (Including Note Proceeds)	44,147,739
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(39,391,787)</u>
Balance	\$ 6,378,991
Note Repayment	\$ 5,386,464
NOTE COVERAGE RATIO	1.18 : 1

Other District Funds

Under the combined operating rules of the Districts, balances in like funds of the Districts may be balanced between Districts by Board action (see “**Combined Operations**” herein). The Districts maintain a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “**THE NOTES — Other District Funds**” herein.

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Other District Funds

<u>Fund</u>	<u>June 30, 2003,</u> <u>Balance</u>	<u>June 30, 2004,</u> <u>Estimated Balance</u>	<u>June 30, 2005,</u> <u>Estimated Balance</u>
Combined Funds:			
Deferred Maintenance	\$ 644,151	\$ 71,560	\$ 250,000
Cafeteria	58,725	70,462	75,000
Adult Education	102,820	80,000	100,000
Capital Facilities	2,085,742	2,088,028	1,000,000
Special Reserve	93,146	71,177	50,000
Elementary District General Fund	<u>1,970,710</u>	<u>1,467,006</u>	<u>967,801</u>
Total Other Funds	<u>\$4,955,294</u>	<u>\$3,848,233</u>	<u>\$2,442,801</u>

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through March 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

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**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
PETALUMA JOINT UNION HIGH SCHOOL DISTRICT**

**Excerpts from Audited Financial Statements
June 30, 2003**

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STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Petaluma City Schools
200 Douglas Street
Petaluma, CA 94952

We have audited the accompanying financial statements of the governmental activities and each major fund of Petaluma City Schools, as of and for the fiscal year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Petaluma City Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as noted in the following paragraphs, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Education Code Section 33128.1, management has chosen to recognize for General Fund and Adult Education Fund budgetary and financial reporting purposes, state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 revenue that is available for payment of fiscal year 2002-03 expenditures. Contrary to this practice, accounting principles generally accepted in the United States of America prohibit similar revenues from being recognized for budgetary or financial reporting purposes until the funds have been appropriated by the state legislature. The effect of this departure on the financial position and changes in financial position of the General Fund and Adult Education Fund is not reasonably determined.

Lack of certain internal control procedures and supporting records limits us to expressing an independent auditor's opinion on recorded transactions of the Student Body Funds (see Note 15).

In our opinion, except for the effects of recognizing state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 General Fund and Adult Education Fund revenues that are available for payment of fiscal year 2002-03 expenditures, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and Adult Education Fund of Petaluma City Schools, as of June 30, 2003, and the changes in financial position of the General Fund and Adult Education Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the Student Body revenues, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, Bond Interest and Redemption Fund, Building Fund, and remaining fund information for Petaluma City Schools, as of June 30, 2003, and the changes in financial position including cash flows of those activities and funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

1

Board of Education
Petaluma City Schools
Page Two

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 51 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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.

As described in Note 1C, Petaluma City Schools has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, on our consideration of Petaluma City Schools' internal control over financial reporting and our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 22, 2003

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

This section of Petaluma City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 25, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status remains positive. Over the course of the year, total net assets increased by 11.2%.
- Total current year revenues exceeded total current year expenses by \$2,513,720.
- Capital assets, net of depreciation, increased by \$5,386,576, and were primarily financed by school facilities apportionments and bond proceeds.
- Long-term debt increased by \$3,761,614, due primarily to the issuance of general obligation bonds in the amount of \$3,500,000 in August 2002.
- Average daily attendance (ADA), excluding adult ADA, in the District increased by 94 ADA (1.3%) from 7,396 ADA in fiscal year 2001-02 to 7,490 ADA in fiscal year 2002-03.
- This is the first year that capital asset balances have been included in the financial statements of the District as mandated by the Governmental Accounting Standards Board.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2002-03, General Fund expenditures and other financing uses totaled \$54,250,703, exclusive of state on-behalf payments made by the State of California. At June 30, 2003, the District had available reserves of \$3,073,142 in the General Fund, which represents a reserve of 5.7%.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the District-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

The basic services provided by the District, such as regular and special education, adult education, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal contract and grants, and local revenues.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds:

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds

The major governmental funds of Petaluma City Schools are the General Fund, Bond Interest and Redemption Fund and the Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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 operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has one fund of this type, the Self-Insurance Fund.

Fiduciary Funds

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Fiduciary Statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets increased from \$22,527,770 at June 30, 2002 to \$25,041,490 at June 30, 2003, or 11.2%.

	Governmental Activities	
	2003	2002
Assets:		
Cash	\$ 24,058,443	\$
Receivables	4,967,954	
Stores Inventory	79,050	
Prepaid Expenditures	1,518,048	
Capital Assets, net	71,167,724	
Total Assets	101,791,219	****
Liabilities:		
Other Liabilities	4,178,883	
Long-term Debt Outstanding	72,570,846	
Total Liabilities	76,749,729	****
Net Assets:		
Invested in Capital Assets		
- Net of Related Debt	11,349,987	
Restricted	9,907,010	
Unrestricted	3,784,493	
Total Net Assets	\$ 25,041,490	\$ ****

Table includes financial data of the combined governmental and proprietary funds

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

The District invested \$8,598,745 in capital assets in 2002-03 increasing total capital assets, net of depreciation, by \$5,386,576 over 2001-02. The most significant investment was the modernization projects completed at McDowell Elementary and Casa Grande High School. These projects were financed by a combination of school facilities apportionments received in the County School Facilities Fund and local general obligation bond funds.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

District net assets increased \$2,513,720 during fiscal year 2002-03.

	Governmental Activities	
	2003	2002
Comparative Statement of Revenues, Expenses, Special Item and Change in Net Assets		
Program Revenues:		
Charges for Services	\$ 1,808,499	\$
Operating Grants and Contributions	10,942,934	
Capital Grants and Contributions	2,267,226	
General Revenues:		
Taxes Levied	28,118,140	
Federal and State Aid	20,153,647	
Interest and Investment Earnings	985,794	
Transfers From Other Agencies	665,937	
Miscellaneous	2,092,583	
Total Revenues	67,034,760	****
Program Expenses:		
Instruction	37,668,656	
Instruction-Related Services	5,924,881	
Pupil Services	7,003,061	
General Administration	2,292,037	
Plant Services	6,048,594	
Ancillary Services	233,711	
Community Services	440,258	
Enterprise Activities	57,379	
Interest on Long-Term Debt	3,472,439	
Other Outgo	1,352,744	
Total Expenses	64,493,540	****
Excess Revenues Before Special Item	2,541,220	
Special Item	(27,500) *	
Change in Net Assets	\$ 2,513,720	\$ ****

Table includes financial data of the combined governmental and proprietary funds

* The special item relates to the loss the District incurred on the sale of land.

*** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

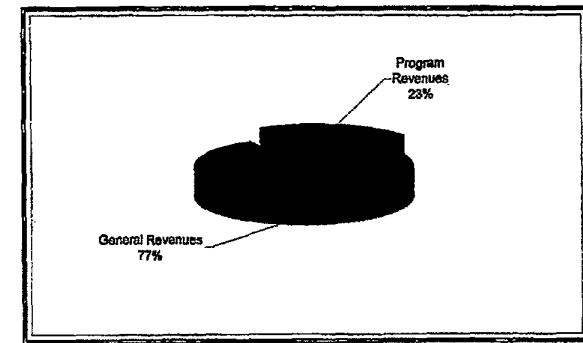
The table below presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$49,474,881 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed below.

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2003	2002		2003	2002	
	Instruction	\$ 37,668,656		\$	\$ (27,668,627)	
Instruction-Related Services	5,924,881		(5,224,594)			
Pupil Services	7,003,061		(3,162,124)			
General Administration	2,292,037		(2,158,810)			
Plant Services	6,048,594		(5,704,694)			
Ancillary Services	233,711		(233,711)			
Community Services	440,258		(440,258)			
Enterprise Activities	57,379		(57,379)			
Interest on Long-Term Debt	3,472,439		(3,472,439)			
Other Outgo	1,352,744		(1,153,945)			
Totals	\$ 64,493,540	****	\$ (49,474,881)	****		

Table includes financial data of the combined governmental and proprietary funds

*** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

Program revenues financed 23% of the total cost of providing the services listed above, while the remaining 77% was financed by the general revenues of the District.



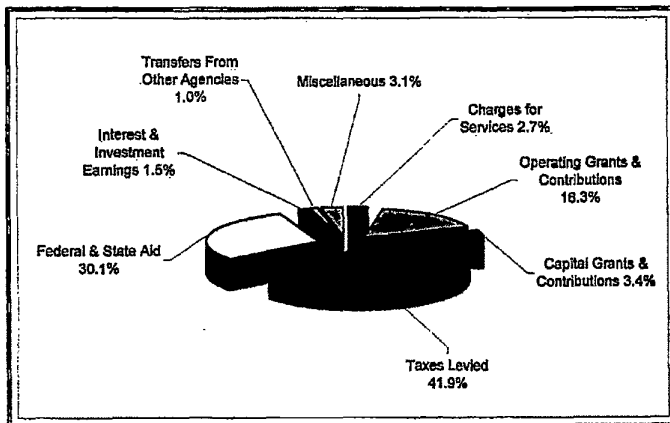
**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions				
	FYE 2003 Amount	Percent of Total	Increase (Decrease) from FYE 2002	Percent Increase (Decrease)
Program Revenues:				
Charges for Services	\$ 1,808,499	2.70%	\$	
Operating Grants & Contributions	10,942,834	16.32%		
Capital Grants & Contributions	2,267,226	3.38%		
General Revenues:				
Taxes Levied	28,118,140	41.95%		
Federal and State Aid	20,153,847	30.06%		
Interest and Investment Earnings	985,794	1.47%		
Transfers From Other Agencies	665,937	0.99%		
Miscellaneous	2,092,583	3.12%		
Total Revenues	\$ 67,034,760	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.



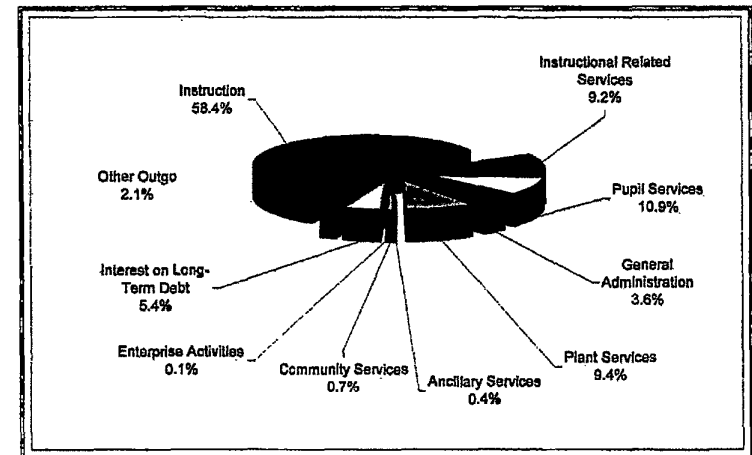
**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions				
	FYE 2003 Amount	Percent of Total	Increase (Decrease) from FYE 2002	Percent Increase (Decrease)
Expenses				
Instruction	\$ 37,668,656	58.41%	\$	
Instruction Related Services	5,924,681	9.19%		
Pupil Services	7,003,061	10.86%		
General Administration	2,292,037	3.55%		
Plant Services	8,048,594	9.38%		
Ancillary Services	233,711	0.36%		
Community Services	440,258	0.68%		
Enterprise Activities	57,379	0.09%		
Interest on Long-Term Debt	3,472,439	5.38%		
Other Outgo	1,382,744	2.10%		
Total Expenses	\$ 64,493,540	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.



**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

	Governmental Activities	
	2003	2002
		\$
Land	4,375,201	4,575,201
Sites and Improvements	4,590,540	4,590,540
Buildings and Improvements	82,101,679	59,762,055
Furniture and Equipment	4,173,513	3,927,527
Work in Progress	3,579,386	17,570,988
Subtotals	98,820,319	90,428,311
Less: Accumulated Depreciation	(27,652,595)	(24,645,163)
Capital Assets, net	<u>\$ 71,167,724</u>	<u>\$ 65,781,148</u>

Capital assets, net of depreciation, increased by \$5,386,576, and were primarily financed by school facilities apportionments and bond proceeds.

In August 2002, the District issued general obligation bonds in the amount of \$3,500,000. These bond funds, enhanced by state funds, will continue to increase the value of capital assets over the coming years.

	Governmental Activities	
	2003	2002
		\$
Compensated Absences	480,128	411,184
General Obligation Bonds	68,577,988	64,884,350
Capital Leases	2,119,889	2,327,426
Retiree Benefits	1,392,841	1,186,272
Totals	<u>\$ 72,570,846</u>	<u>\$ 68,809,232</u>

The General Obligation Bonds are financed by the local taxpayers and represent 95% of the District's long-term debt. During fiscal year 2002-03, the District issued \$3,500,000 of general obligation bonds. The remaining portion of long-term debt is to be paid by the District and includes retiree benefits, capital leases, and the value of vacation earned, but not taken as of June 30, 2003. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

	Comparative Schedule of Fund Balances		
	Fund Balances June 30, 2003	Fund Balances June 30, 2002	Increase (Decrease)
General	\$ 5,479,597	\$ 4,421,196	\$ 1,058,401
Deferred Maintenance	544,151	566,552	77,599
Cafeteria	58,725	49,151	9,574
Adult Education	102,820	57,417	45,403
Bond Interest & Redemption	5,953,120	5,875,017	78,103
Capital Facilities	2,085,742	1,760,214	325,528
Building	10,437,099	9,277,012	1,160,087
State School Building	0	180,645	(180,645)
Capital Projects - Special Reserve	93,146	372,118	(278,972)
County School Facilities	877,986	3,958,614	(3,080,628)
Self-Insurance	5,141	417	4,724
Totals	<u>\$ 25,737,527</u>	<u>\$ 26,518,353</u>	<u>\$ (780,826)</u>

The increase in the General Fund balance is due to budget reductions and cost containment in order to meet multi-year projection requirements or possible mid-year cuts.

The increase in fund balance in the Building Fund is a result of unspent bond proceeds. The decrease in fund balance in the County School Facilities Fund is a result of spending school facilities apportionments received during the prior fiscal year.

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The Original budget presented on page 51 includes only new revenues for 2002-03.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The State's economic situation is a major factor affecting the District's future. The financial well being of the District is tied, in large measure, to the state funding formula which is precarious at this time. In 2002-03, the District had made sufficient reductions to meet reserve requirements through 2005-06. However, it is not clear whether or not the District will need to make additional budget reductions for 2004-05 until the details of the 2004-05 State Budget are known. Specifically, the inclusion/exclusion of a statutory fund COLA will be the determining factor.

**PETALUMA CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

- Student enrollment and average daily attendance (ADA) are primary factors in the computation of most funding formulas for public schools in the State of California. ADA for the elementary district is expected to continue to decline while the high school district is expected to grow through 2005-06.
- Together, these two factors, enrollment/ADA and the State's economic condition require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.
- The District presently has an indexed cap on employee health and welfare benefits. With escalating health care costs, the District is continuing to search for solutions to this problem.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact the District Office, Petaluma City Schools, 200 Douglas Street, Petaluma, California 94952.

**PETALUMA CITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash (Note 2)	\$ 24,058,443
Receivables (Note 4)	4,867,854
Stores Inventory (Note 1K)	79,050
Prepaid Expenditures (Note 1K)	1,518,048
Capital Assets (Note 6)	
Land	4,375,201
Sites and Improvements	4,690,540
Buildings and Improvements	82,101,679
Furniture and Equipment	4,173,513
Work-In-Progress	3,579,886
Less: Accumulated Depreciation	<u>(27,652,595)</u>
Total Assets	<u>101,791,219</u>
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	3,671,185
Deferred Revenue (Note 1K)	507,698
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
General Obligation Bonds (Note 7)	
Current Interest	1,285,000
Capital Appreciation	1,239,663
Capital Leases (Note 8)	340,886
Retiree Benefits (Note 10)	269,423
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 1K)	480,128
General Obligation Bonds (Note 7)	
Current Interest	48,800,000
Capital Appreciation	17,253,325
Capital Leases (Note 8)	1,779,003
Retiree Benefits (Note 10)	<u>1,133,418</u>
Total Liabilities	<u>76,749,729</u>
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	11,349,987
Restricted:	
For Capital Projects	3,056,874
For Debt Service	5,953,120
For Educational Programs	733,200
For Other Purposes	163,816
Unrestricted	<u>3,784,493</u>
Total Net Assets	<u>\$ 25,041,490</u>

**PETALUMA CITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Governmental Activities:					
Instruction	\$ 37,668,659	\$ 189,847	\$ 7,404,030	\$ 2,207,852	\$ (27,866,927)
Instruction-Related Services:					
Supervision of Instruction	851,230		225,680		(625,550)
Instructional Library, Media, Technology	723,326		30,743		(692,583)
School Site Administration	4,350,105	28,464	416,180		(3,905,461)
Pupil Services:					
Home-to-School Transportation	1,089,938	87,297	647,003		(325,638)
Food Services	1,905,798	1,424,666	478,903		(2,229)
Other Pupil Services	4,027,325	18,005	1,175,063		(2,834,267)
General Administration:					
Other General Administration	2,292,037	3,903	129,315		(2,158,819)
Plant Services	6,048,594	18,870	265,866	59,374	(5,704,684)
Ancillary Services	233,711				(233,711)
Community Services	440,258				(440,258)
Enterprise Activities	57,379				(57,379)
Interest on Long-Term Debt	3,472,439				(3,472,439)
Other Outgo	1,352,744	27,647	171,151		(1,153,946)
Total Governmental Activities	\$ 64,483,540	\$ 1,808,499	\$ 10,942,934	\$ 2,287,226	(49,474,881)
General Revenues:					
Taxes Levied for General Purposes					23,625,570
Taxes Levied for Debt Service					4,492,570
Federal and State Aid - Unrestricted					20,153,647
Interest and Investment Earnings					985,794
Transfers From Other Agencies					665,937
Miscellaneous					2,092,583
Special Item					(27,500)
Total General Revenues and Special Item					51,988,601
Change in Net Assets					2,513,720
Net Assets - July 1, 2002					22,527,770
Net Assets - June 30, 2003					\$ 25,041,490

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General Fund	Bond Interest and Redemption Fund
Assets		
Cash in County Treasury (Note 2)	\$ 3,726,570	\$ 5,953,120
Cash in Banks	2,000	
Cash in Revolving Fund	20,000	
Accounts Receivable (Note 4)		
Federal Government	468,487	
State Government	2,659,313	
Local Governments	945,808	
Miscellaneous	289,983	
Due from Other Funds (Note 5)	593,753	
Stores Inventory (Note 1K)	47,576	
Prepaid Expenditures (Note 1K)	64,466	
Total Assets	\$ 8,818,954	\$ 5,953,120
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	\$ 2,261,527	
Due to Other Funds (Note 5)	382,829	
Deferred Revenue (Note 1K)	695,001	
Total Liabilities	3,339,357	
Fund Balances: (Note 12)		
Reserved	865,242	\$ 5,953,120
Unreserved:		
Designated	3,163,184	
Undesignated	1,451,171	
Total Fund Balances	5,479,597	5,953,120
Total Liabilities and Fund Balances	\$ 8,818,954	\$ 5,953,120

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 10,392,966	\$ 3,951,353	\$ 24,024,009
	300	2,000
	301,229	20,300
	214,481	770,716
	17,866	2,873,794
	69,691	963,672
167,312	28,137	359,674
	31,474	789,202
		79,050
		64,466
<u>\$ 10,560,278</u>	<u>\$ 4,614,531</u>	<u>\$ 29,946,883</u>
\$ 122,546	\$ 269,276	\$ 2,653,349
633	405,944	789,406
	76,741	771,742
<u>123,179</u>	<u>751,961</u>	<u>4,214,497</u>
	31,774	6,850,136
		3,163,184
10,437,099	3,830,796	15,719,066
<u>10,437,099</u>	<u>3,862,570</u>	<u>25,732,386</u>
<u>\$ 10,580,278</u>	<u>\$ 4,614,531</u>	<u>\$ 29,946,883</u>

Total Fund Balances - Governmental Funds \$ 25,732,386

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$98,820,319, and the accumulated depreciation is \$27,662,595. 71,167,724

Unamortized costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Unamortized debt issue costs, reported as prepaid expenditures, at year-end consist of:

Deferred Charges - Discount	\$ 140,766	
Deferred Charges - Costs of Issuance	239,411	
Deferred Charges - Refunding	<u>1,073,405</u>	1,453,582

Unmatured interest on long-term debt: In governmental funds, interest is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owed at the end of the period was: (1,010,541)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements is: 264,044

An internal service fund is used by District management to charge the cost of vision insurance to the individuals funds. The assets and liabilities of the internal service fund are included in governmental activities. 5,141

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	\$ 480,128	
General Obligation Bonds		
Current Interest	50,065,000	
Capital Appreciation	18,492,988	
Capital Leases	2,119,889	
Retiree Benefits	<u>1,392,841</u>	(72,570,846)

Total Net Assets - Governmental Activities \$ 25,041,480

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**PETALUMA CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund	Bond Interest and Redemption Fund
<u>Revenues</u>		
Revenue Limit Sources:		
State Apportionment	\$ 17,612,365	
Local Taxes	23,626,570	
Total Revenue Limit Sources	41,237,935	
Federal Revenue	1,732,517	
State Revenue	6,578,644	\$ 59,195
State On-Behalf Payments	1,212,424	
Local Revenue	6,575,006	4,566,135
Total Revenues	56,336,526	4,625,330
<u>Expenditures</u>		
Instruction	35,866,654	
Supervision of Instruction	795,302	
Instructional Library, Media and Technology	589,342	
School Administration	3,776,958	
Home-to-school Transportation	908,999	
Food Services		
Other Pupil Services	3,820,484	
Other General Administration	2,133,772	
Plant Services	5,092,948	
Facilities Acquisition and Construction		
Ancillary Services	213,497	
Community Services	391,538	
Enterprise Activities	57,379	
Debt Service:		
Principal	201,458	18,769,413
Interest	19,904	3,227,184
Other Outgo	1,362,744	
Total Expenditures	55,220,979	21,996,597
Excess of Revenues Over (Under) Expenditures	1,115,547	(17,371,267)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In		
Operating Transfers Out	(242,148)	
Other Sources	185,002	17,838,020
Other Uses		(388,650)
Total Other Financing Sources (Uses)	(57,146)	17,449,370
Net Change in Fund Balances	1,058,401	78,103
Fund Balances - July 1, 2002	4,421,196	5,875,017
Fund Balances - June 30, 2003	\$ 5,479,597	\$ 5,953,120

PETALUMA CITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$ 1,241,123	\$ 18,853,488
	1,241,123	23,625,570
	667,066	42,479,058
	2,404,880	2,399,583
	2,222,439	9,042,719
\$ 357,140		1,212,424
357,140	6,535,508	12,720,720
		67,854,504
	1,149,320	37,015,974
	14,525	809,827
		589,342
	320,393	4,097,351
		908,999
	1,876,867	1,876,667
	373	3,820,867
		2,193,397
151,284	59,625	5,706,423
1,722,053	462,191	8,386,807
		213,497
		391,538
		57,379
	191,081	19,161,952
	117,084	3,364,172
		1,352,744
1,873,337	10,856,013	89,946,926
(1,516,197)	(4,320,505)	(22,092,422)
55,877	1,121,741	1,177,618
(879,593)	(55,877)	(1,177,618)
3,500,000	172,500	21,695,522
		(388,650)
2,676,284	1,238,364	21,306,872
1,160,087	(3,082,141)	(785,550)
9,277,012	6,944,711	26,517,936
\$ 10,437,099	\$ 3,862,570	\$ 25,732,386

Net Change in Fund Balances - Governmental Funds \$ (785,660)

Amounts reported for governmental activities in the statement of activities are different due to the following:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities these costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay expenditures exceeded depreciation during the fiscal year.

Depreciation Expense	\$ (3,012,169)	
Capital Outlays	8,598,745	5,586,576

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is:

(200,000)

Earned but unavailable revenue is reported in governmental funds only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the statement of activities, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is:

264,044

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

Cost of Issuance and Refunding	\$ 1,483,607	
Cost of Issuance and Refunding Amortized	(30,025)	1,453,582

In the statement of activities, certain operating expenses-compensated absences (vacations) and retiree benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year amounts earned exceeded amounts used by:

(275,513)

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

General Obligation Bonds:		
Current Interest	\$ 11,285,000	
Capital Appreciation	7,484,413	
Capital Leases	392,539	19,161,952

Proceeds from debt issuances are recognized as Other Financing Sources in governmental funds. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:

(21,523,022)

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. Accrued and accreted interest on bonds and leases increased by:

(1,173,073)

An internal service fund is used by District management to charge the costs of vision insurance to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

4,724

Change in Net Assets of Governmental Activities \$ 2,513,720

PETALUMA CITY SCHOOLS
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2003

	Governmental Activities
	Internal Service Fund
<u>Assets</u>	
Cash in County Treasury (Note 2)	\$ 12,134
Receivables (Note 4)	98
Due from Other Funds (Note 5)	204
Total Assets	<u>12,436</u>
<u>Liabilities</u>	
Accounts Payable	7,295
Total Liabilities	<u>7,295</u>
<u>Net Assets</u>	
Designated	5,141
Total Net Assets	<u>\$ 5,141</u>

PETALUMA CITY SCHOOLS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities
	Internal Service Fund
<u>Operating Revenues</u>	
Self-insurance Premiums	\$ 128,636
<u>Operating Expenses</u>	
Payments for Contracted Services	<u>123,786</u>
Operating Gain	4,850
<u>Non-Operating Expenses</u>	
Interest Expense	<u>(126)</u>
Change in Net Assets	4,724
Net Assets - July 1, 2002	<u>417</u>
Net Assets - June 30, 2003	<u>\$ 5,141</u>

**PETALUMA CITY SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Premiums	\$ 129,001
Cash Paid for Contracted Services	(123,382)
Net Cash Provided by Operating Activities	5,619
Cash Flows From Investing Activities:	
Interest Expense	(126)
Net Cash Used by Investing Activities	(126)
Net Increase in Cash	5,493
Cash Balance - July 1, 2002	6,641
Cash Balance - June 30, 2003	\$ 12,134
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities:	
Operating Gain	\$ 4,850
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase in Accounts Receivables	(28)
Decrease in Due From Other Funds	393
Increase in Accounts Payable	404
Net Adjustments	769
Net Cash Provided by Operating Activities	\$ 5,619

**PETALUMA CITY SCHOOLS
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003**

	Private-Purpose Trust Scholarship Fund	Agency Funds	Total Fiduciary Funds
Assets			
Cash in Banks (Note 2)	\$ 6,874	\$ 333,465	\$ 340,339
Investments (Note 2)	99,781		99,781
Receivables (Note 4)	309		309
Total Assets	106,964	333,465	440,429
Liabilities			
Due to Student Groups		333,465	333,465
Net Assets			
Reserved for Scholarships	106,964		106,964
Total Net Assets	\$ 106,964	\$ 0	\$ 106,964

PETALUMA CITY SCHOOLS
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private-Purpose Trust
	Scholarship Fund
<u>Additions</u>	
Interest	\$ 1,791
<u>Deductions</u>	
Scholarships Awarded	7,401
Change in Net Assets	(5,610)
<u>Net Assets</u>	
Net Assets - July 1, 2002	112,574
Net Assets - June 30, 2003	\$ 106,964

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

Petaluma City Schools (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

These financial statements report the combined financial activities of the "Petaluma City Elementary School District" and the "Petaluma Joint Union High School District". The districts share a common governing board, administration, and staff. These two entities are referred to collectively as Petaluma City Schools, and for purposes of these financial statement notes, will be referred to collectively as the District.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity. In determining its reporting entity, the District considered all governmental units that were members of the District since inception. The criteria did not require the inclusion of these entities in the District's financial statements principally because the District does not exercise oversight responsibility over any members.

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis for accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements, and the preparation of a Management Discussion and Analysis to clarify the District's financial activities. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for a decrease of \$3,990,583, for a net asset balance of \$22,527,770 at June 30, 2002 on the government-wide financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance premiums. Operating expenses for internal service funds include the costs of providing vision benefits to District employees.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use 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 under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transaction must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Concluded)

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

The *Bond Interest and Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal.

The *Building Fund* is used to account for the proceeds of funds generated by the sale of Election 1991 and Election 1992 General Obligation Bonds. Expenditures are made from this fund for acquisition of major governmental facilities.

Non-major Governmental Funds:

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 three non-major special revenue funds:

1. *Deferred Maintenance Fund* is used for the purpose of major repairs or replacement of District property.
2. *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. *Adult Education Fund* is used to account for resources received and expenditures made to operate adult education programs maintained by the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

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

1. *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
2. *State School Building Fund* is used to account for the building of new schools and related equipment from state apportionments (Education Code Section 17708).
3. *Special Reserve Fund* is used to account for special building projects as determined by the District.
4. *County School Facilities Fund* is used to account for revenue received from state allocations for construction projects and the expenditures made for those projects (Education Code Sections 17009.5 and 17070.10-17076.10).

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used for payment of vision premiums. As of July 1, 1996, the District is no longer self-insured.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains two private-purpose trust funds, the Schwobeda Memorial Trust Fund and the At Risk Youth Trust Fund, collectively the Scholarship Fund, to provide financial assistance to students of the District. The Schwobeda Memorial Trust Fund includes \$99,781 as a nonexpendable component that is permanently restricted for generating trust income.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the seven student body accounts. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 51.

PETALUMA CITY SCHOOLS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Concluded)

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (See Note 3).

H. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Encumbrances

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

J. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows for the District's proprietary fund, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

K. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation (FDIC).

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

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

The District did not directly enter into any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

PETALUMA CITY SCHOOLS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Assets, Liabilities and Equity (Continued)

2. Inventories and Prepaid Expenditures

Inventory is recorded using the purchase method in that the cost (handling charge for state surplus food) is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of expendable supplies held for consumption.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred. Prepaid expenditures include the costs associated with the bonds issued and refunded in the current year. The costs will be amortized over the life of the bond obligations.

Reported inventories and prepaid expenditures are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

There are two thresholds established for capital assets. The first tier includes capital assets purchased or acquired (e.g., equipment, vehicles and the like) with an original cost of \$5,000 or more, and are reported at historical cost or estimated historical cost. The second tier includes capital improvements or building projects with an original cost of \$50,000 or more, and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on capital assets has been computed using the straight-line basis over the following estimated useful lives:

Asset Class	Example	Estimated Useful Life in Years
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Assets, Liabilities and Equity (Continued)

3. Capital Assets (Concluded)

Asset Class	Example	Estimated Useful Life in Years
Custodian equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PC's, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

4. Deferred Revenue

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

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

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

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Premiums and discounts as well as issuance costs, related to long-term debt issued after the implementation of GASB Statement No. 34, are deferred and amortized over the life of the debt. Long-term debt is reported net of the applicable premium or discount.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

K. Assets, Liabilities and Equity (Concluded)

6. Long-term Obligations (Concluded)

In the fund financial statements, governmental funds recognize premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on secured roll are due on November 15 and March 15, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates fair value. The difference between cost and fair value of the District's share of pooled investments in the Sonoma County Treasury was not material throughout fiscal year 2002-03. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

PETALUMA CITY SCHOOLS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Cash in County Treasury (Concluded)

Investments by the District in pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Cash in Banks and in Revolving Fund

Cash balances in Banks and in the Revolving Fund are insured up to \$100,000 by the Federal Depository Insurance Corporation.

Cash Balances

Cash at June 30, 2003, consisted of the following:

	Governmental Funds	Proprietary Fund	Total Governmental Activities	Fiduciary Activities
Pooled Funds:				
Cash in County Treasury	\$ 24,024,009	\$ 12,134	\$ 24,036,143	
Deposits:				
Cash in Banks	2,000		2,000	\$ 340,339
Cash in Revolving Fund	20,300		20,300	
Total Cash	\$ 24,046,309	\$ 12,134	\$ 24,058,443	\$ 340,339

Investments

Investments as of June 30, 2003, are presented below:

	Category			Uncategorized	Carrying Amount	Fair Value
	1	2	3			
Certificates of Deposit	\$ 99,781	\$ 0	\$ 0	\$ 0	\$ 99,781	\$ 99,781

- Category 1: Insured or registered, or securities held by the District or its agent in the District's name.
 Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.
 Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the District's name.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

Funds	Excess Expenditures
<u>Special Revenue Funds:</u>	
Cafeteria Fund:	
Debt Service: Interest and Fiscal Charges	\$ 48
Adult Education Fund:	
Certificated Salaries	6,149

PETALUMA CITY SCHOOLS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS (CONCLUDED)

Funds	Excess Expenditures
-------	---------------------

Debt Service Fund:

Bond Interest and Redemption Fund:	
Debt Service: Principal Retirement	\$ 85,743

The District incurred unanticipated expenditures in the above expenditure classifications for which the budget was not revised. The Bond Interest and Redemption Fund is under the control of the Sonoma County Auditor.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 consist of the following:

	General Fund	Other Governmental Funds	Proprietary Fund	Total Governmental Activities	Fiduciary Activities
Federal Government					
Categorical Programs	\$ 469,487	\$ 301,229		\$ 770,716	
State Government					
State Aid	870,023	102,629		972,652	
Categorical Programs	901,307	111,852		1,013,159	
Lottery	136,155			136,155	
Other Allowances	751,828			751,828	
Total State	2,659,313	214,481		2,873,794	
Local Governments	945,806	17,866		963,672	
Interest					\$ 309
Miscellaneous	289,983	69,691	\$ 98	359,772	
Totals	\$ 4,364,589	\$ 603,267	\$ 98	\$ 4,967,954	\$ 309

NOTE 5 - INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2003 are as follows:

Funds	Interfund Receivables	Interfund Payables
General	\$ 593,753	\$ 382,829
Deferred Maintenance		2,253
Cafeteria	3,106	133,221
Adult Education	25,031	101,887
Capital Facilities		39,684
State School Building		119,875
Building	167,312	633
County School Facilities		9,024
Self-Insurance	204	
Totals	\$ 789,406	\$ 789,406

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2002-03 were as follows:

Funds	Transfers In	Transfers Out
General		\$ 242,148
Deferred Maintenance	\$ 298,718	
State School Building		55,877
Building	55,877	879,593
Capital Projects - Special Reserve	242,148	
County School Facilities	580,875	
Totals	\$ 1,177,618	\$ 1,177,618

Transfer of \$298,718 from the Building Fund to the Deferred Maintenance Fund to match state allocation.

Transfer of \$18,303 from the State School Building Fund to the Building Fund for additional funds received after project completion.

Transfer of \$37,574 from the State School Building Fund to the Building Fund to return District's match contribution for modernization funds returned to the state.

Transfer of \$242,148 from the General Fund to the Capital Projects - Special Reserve Fund for redevelopment funds to pay for District Office facility.

Transfer of \$580,875 from the Building Fund to the County School Facilities Fund for District's required match contribution for Petaluma Junior High School project.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2003, are shown below:

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003
Land	\$ 4,575,201		\$ 200,000	\$ 4,375,201
Sites and Improvements	4,590,540			4,590,540
Buildings and Improvements	59,762,055	\$ 22,339,624		82,101,679
Furniture and Equipment	3,927,527	250,723	4,737	4,173,513
Work in Progress	17,570,988	3,579,386	17,570,988	3,579,386
Totals at Historical Cost	90,426,311	26,169,733	17,775,725	98,820,319
Less Accumulated Depreciation for:				
Sites and Improvements	2,668,107	258,449		2,926,556
Buildings and Improvements	19,467,351	2,470,090		21,937,441
Furniture and Equipment	2,509,705	283,630	4,737	2,798,598
Total Accumulated Depreciation	24,645,163	3,012,169	4,737	27,652,595
Governmental Activities				
Capital Assets, net	\$ 65,781,148	\$ 23,157,564	\$ 17,770,988	\$ 71,167,724

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation Expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 1,729,129
Supervision of Instruction	38,587
Instructional Library, Media and Technology	128,641
School Site Administration	246,589
Home to School Transportation	157,872
Food Services	23,860
Other Pupil Services	201,191
Other General Administration	87,923
Plant Services	316,473
Ancillary Services	20,142
Community Services	61,762
Total Depreciation Expense	\$ 3,012,169

NOTE 7 - GENERAL OBLIGATION BONDS

On August 1, 2002, the elementary school district issued general obligation bonds in the aggregate principal amount of \$3,500,000. The proceeds from the bonds can be used to acquire school sites, build or purchase school buildings, make permanent alterations, additions or improvements to school buildings and grounds.

On December 4, 2002, the high school district issued general obligation bonds in the amount of \$11,943,021, with interest rates from 2.0% to 5.6%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1992, outstanding Series A bonds and the outstanding Series C bonds maturing on or after August 1, 2005, through August 1, 2020, inclusive, and to pay the costs of issuance of the bonds. The 2002 refunding bonds were issued as \$10,435,000 of current interest bonds and \$1,508,021 of capital appreciation bonds.

On April 17, 2003, the elementary school district issued general obligation bonds in the amount of \$5,895,000, with interest rates from 2.75% to 4.30%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1991, outstanding Series D bonds maturing on and after August 1, 2004, the outstanding Series F bonds maturing on and after August 1, 2005, and to pay the costs of issuance of the bonds. The 2003 refunding bonds were issued as \$5,895,000 of current interest bonds.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

The outstanding General Obligation debt of the District as of June 30, 2003 is as follows:

A. Current Interest Bonds

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2002	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2003
Elementary						
1991 Series						
1993 B	5.00-8.00	\$ 5,600,000	\$ 4,740,000		\$ 185,000	\$ 4,575,000
1995 D	4.80-7.50	2,000,000	1,760,000		1,895,000	65,000
1997 E	5.10-7.00	2,000,000	105,000		50,000	55,000
1997 F	5.15-6.15	4,500,000	4,140,000		3,875,000	265,000
1999 G	4.20-7.20	1,500,000	1,440,000		35,000	1,405,000
2000 H	5.00-8.00	2,000,000	1,965,000		35,000	1,930,000
2002 I	1.70-5.00	3,500,000	0	\$ 3,500,000		3,500,000
1998 Series						
Refunding	4.00-4.60	7,530,000	7,225,000		255,000	6,970,000
2003 Series						
Refunding	2.75-4.30	5,895,000	0	5,895,000		5,895,000
Total Elementary		<u>34,525,000</u>	<u>21,375,000</u>	<u>9,395,000</u>	<u>6,110,000</u>	<u>24,660,000</u>
High School						
1992 Series						
1993 A	5.50-8.50	\$ 6,000,000	\$ 4,825,000		\$ 4,825,000	\$ 0
1999 D	4.25-7.25	3,900,000	3,615,000		110,000	3,505,000
1999 E	4.50-7.00	2,600,000	2,490,000		60,000	2,430,000
2000 F	5.00-8.00	9,400,000	9,235,000		180,000	9,055,000
2002 Series						
Refunding	2.00-4.75	10,435,000	0	10,435,000		10,435,000
Total High School		<u>32,335,000</u>	<u>20,165,000</u>	<u>10,435,000</u>	<u>5,175,000</u>	<u>25,426,000</u>
Total Current Interest Bonds		<u>\$ 66,860,000</u>	<u>\$ 41,540,000</u>	<u>\$ 19,830,000</u>	<u>\$ 11,285,000</u>	<u>\$ 50,086,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 1,285,000	\$ 2,687,237	\$ 3,972,237
2005	1,395,000	2,432,558	3,827,558
2006	1,995,000	2,143,225	4,138,225
2007	2,075,000	2,081,165	4,136,165
2008	2,160,000	1,973,725	4,133,725
2009-2013	12,115,000	8,393,249	20,508,249
2014-2018	13,605,000	5,448,806	19,053,806
2019-2023	12,390,000	2,076,649	14,466,649
2024-2028	3,065,000	238,374	3,303,374
Totals	<u>\$ 50,085,000</u>	<u>\$ 27,454,988</u>	<u>\$ 77,539,988</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds

Description and Date	Interest Rate %	Amount of Original Issue	Outstanding July 1, 2002*	Issued & Accreted Interest Current Year	Redeemed Current Year	Outstanding June 30, 2003
High School						
1992 Series						
1997 C	4.60-6.20	\$ 10,623,278	\$ 10,470,871	\$ 358,288	\$ 7,414,413	\$ 3,414,544
1995 Series						
Refunding	4.85-5.80	8,972,019	12,873,879	722,039	70,000	13,525,718
2002 Series						
Refunding	5.60	1,508,021	0	1,552,726		1,552,726
Total Capital Appreciation Bonds		<u>\$ 21,103,316</u>	<u>\$ 23,344,350</u>	<u>\$ 2,633,051</u>	<u>\$ 7,484,413</u>	<u>\$ 18,492,988</u>

* The July 1, 2002, outstanding balance has been adjusted to reflect the accreted interest on the 1992 Series C and the 1995 Series capital appreciation bonds which had not been presented in prior years.

The outstanding obligation for the 1992 Series C capital appreciation bonds at June 30, 2003, is as follows:

Maturity Date	Interest Rate %	Amount of Original Issue (Principal)	Accreted Interest	Outstanding June 30, 2003
2004	5.00	\$ 791,028	\$ 279,292	\$ 1,070,320
2005	5.10	636,355	229,852	866,207
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009-2013		0	0	0
2014-2018		0	0	0
2019-2023	6.20	1,016,969	461,048	1,478,017
Totals		<u>\$ 2,444,352</u>	<u>\$ 970,192</u>	<u>\$ 3,414,544</u>

The annual requirements to amortize the 1992 Series C capital appreciation bonds at June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 791,028	\$ 283,972	\$ 1,075,000
2005	636,355	278,645	915,000
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009-2013	0	0	0
2014-2018	0	0	0
2019-2023	1,016,969	3,443,031	4,460,000
Totals	<u>\$ 2,444,352</u>	<u>\$ 4,005,648</u>	<u>\$ 6,450,000</u>

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

B. Capital Appreciation Bonds (Continued)

The outstanding obligation for the 1995 Series capital appreciation bonds at June 30, 2003, is as follows:

Maturity Date	Interest Rate %	Amount of Original Issue (Principal)	Accreted Interest	Outstanding June 30, 2003
2004	4.75	\$ 118,568	\$ 50,775	\$ 169,343
2005	4.85	191,359	83,981	275,340
2006	5.00	257,358	117,081	374,439
2007	5.10	327,119	152,356	479,475
2008	5.20	384,419	183,230	567,649
2009-2013	5.30-5.75	2,650,022	1,362,396	4,012,418
2014-2018	5.70-5.80	3,979,553	2,116,661	6,096,214
2019-2023	5.70	1,012,116	538,724	1,550,840
Totals		\$ 8,920,514	\$ 4,605,204	\$ 13,525,718

The annual requirements to amortize the 1995 Series capital appreciation bonds at June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 118,568	\$ 51,432	\$ 170,000
2005	191,359	98,641	290,000
2006	257,358	157,642	415,000
2007	327,119	232,881	560,000
2008	384,419	315,581	700,000
2009-2013	2,650,022	3,349,978	6,000,000
2014-2018	3,979,553	8,205,447	12,185,000
2019-2023	1,012,116	2,607,884	3,620,000
Totals	\$ 8,920,514	\$ 15,019,486	\$ 23,940,000

The outstanding obligation for the 2002 Series capital appreciation bonds at June 30, 2003, is as follows:

Maturity Date	Interest Rate %	Amount of Original Issue (Principal)	Accreted Interest	Outstanding June 30, 2003
2004		\$ 0	\$ 0	\$ 0
2005		0	0	0
2006		0	0	0
2007		0	0	0
2008		0	0	0
2009-2013		0	0	0
2014-2018		0	0	0
2019-2023	5.60	1,508,021	44,705	1,552,726
Totals		\$ 1,508,021	\$ 44,705	\$ 1,552,726

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

B. Capital Appreciation Bonds (Concluded)

The annual requirements to amortize the 2002 Series capital appreciation bonds at June 30, 2003, are as follows:

Year Ended June 30	Principal	Interest	Totals
2004	\$ 0	\$ 0	\$ 0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009-2013	0	0	0
2014-2018	0	0	0
2019-2023	1,508,021	2,481,979	3,990,000
Totals	\$ 1,508,021	\$ 2,481,979	\$ 3,990,000

NOTE 8 - CAPITAL LEASES

The District leases portables, furniture, equipment, and vehicles under agreements, which provide for title to pass upon expiration of the lease periods. Future minimum lease payments under these agreements are as follows:

Year Ended June 30	Lease Payments
2004	\$ 464,794
2005	374,222
2006	298,678
2007	277,205
2008	240,951
2009-2013	1,057,223
Total payments	2,713,073
Less amounts representing interest	(593,184)
Present value of net minimum lease payments	\$ 2,119,889

The District will receive no sublease rental revenue nor pay any contingent rental for the leased assets.

NOTE 9 - OPERATING LEASES

The District has entered into various operating leases related to capital improvement projects with lease terms in excess of one year. The monthly payments are made from the Capital Projects Funds. 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 dates.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - RETIREE BENEFITS

In addition to the benefits described in Note 13, the District provides health, dental, vision and life insurance benefits for eligible employees. Eligible employees must be at least 55 years of age and have provided 10 years of service to the District at the time of retirement. Benefits are paid by the District until the retiree reaches the age of 65. For the year ended June 30, 2003, 89 employees were eligible to receive retiree benefits. Future estimated payments required under the plan are as follows:

Year Ended June 30	Retiree Benefits
2004	\$ 259,423
2005	228,393
2006	205,965
2007	185,531
2008	163,544
2009-2013	338,953
2014-2018	11,032
Total	\$ 1,392,841

NOTE 11 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2003, is shown below.

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003	Due Within One Year
Compensated Absences	\$ 411,184	\$ 68,944		\$ 480,128	
General Obligation Bonds					
Current Interest	41,540,000	19,830,000	\$ 11,285,000	50,085,000	\$ 1,285,000
Capital Appreciation *	23,344,350	2,633,051	7,484,413	18,492,988	1,239,863
Capital Leases *	2,327,426	185,002	392,539	2,119,889	340,886
Retiree Benefits	1,186,272	206,569		1,392,841	259,423
Totals	\$ 68,809,232	\$ 22,923,566	\$ 19,161,952	\$ 72,570,846	\$ 3,124,872

* The July 1, 2002, outstanding balance for the general obligation bonds has been adjusted to reflect the accreted interest on the 1992 Series C and 1995 Series capital appreciation bonds which had not been presented in prior years. In addition, the July 1, 2002, outstanding balance for the capital leases has been adjusted for a prior year overstatement.

NOTE 12 - FUND BALANCES

A. Reservations of fund balances as of June 30, 2003 are as follows:

	General Fund	Bond Interest & Redemption Fund	Other Governmental Funds	Totals
Revolving Fund	\$ 20,000		\$ 300	\$ 20,300
Stores Inventory	47,576		31,474	79,050
Prepaid Expenditures	64,466			64,466
Debt Service		\$ 5,953,120		5,953,120
Restricted Programs	733,200			733,200
Totals	\$ 865,242	\$ 5,953,120	\$ 31,774	\$ 6,850,136

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - FUND BALANCES (CONCLUDED)

A. Reserved for Revolving Fund represents the portion of the ending fund balance represented by the revolving fund cash.

Reserved for Stores Inventory represents the portion of the ending fund balance represented by stores inventory.

Reserved for Prepaid Expenditures represents the portion of the ending fund balance represented by current year payments, which will benefit future periods beyond June 30, 2003.

Reserved for Debt Service includes \$5,953,120 in the Bond Interest and Redemption Fund, which is reserved for future payment of interest and redemption of bond principal.

Reserved for Restricted Programs reflects unspent program revenues that are legally restricted for future use.

Restricted program balances at June 30, 2003 are as follows:

SIPA Block Grant	\$ 41,115
Cal-safe Supportive Services	3,662
Cal-safe Child Care and Development	2,821
English Language Acquisition Program	24,374
Classroom Library K-4	3,487
California Public School Library	19,563
Lottery - Instructional Materials	100,737
School Safety	6,346
Education Technology	232
Gifted and Talented	50,709
Instructional Materials K-8	92,021
Instructional Materials Realignment Program	107,419
Instructional Materials 9-12	3,838
Standard Based Instructional Materials	97,821
Staff Development: Instructional Materials	115,383
Peer Assistance and Review	45,796
Staff Development SB 1882	3,585
Tenth Grade Counseling	13,620
Lead Testing	671
Total	\$ 733,200

B. Designations of ending fund balances as of June 30, 2003 are as follows:

MAJOR FUNDS:

General Fund:

Economic Uncertainties	\$ 1,621,971
One-Time Charter Conversion	999,526
API/GPA	363,839
Grants and Donations	150,066
Kenilworth Site Use	17,051
Vending	20,731
Total	\$ 3,163,184

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$2,184,952, \$2,062,976, and \$2,005,834, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% 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 2002-03 was 2.83%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$666,595, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) and to the California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$1,203,687 to STRS (4.5475% of salaries subject to STRS) and \$8,737 to CalPERS (0.092% of salaries subject to CalPERS).

NOTE 15 - STUDENT BODY FUNDS

Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area, for some fundraisers, does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

NOTE 16 - JOINT VENTURES

The District participates in three joint ventures under joint powers agreements (JPAs); the Redwood Empire Schools' Insurance Group (RESIG) and the Schools Excess Liability Fund (SELF) for common risk management of property & liability and workers' compensation coverage; and the School Project for Utility Rate Reduction (SPURR) for direct purchase of gas, electricity, and other utility services. SPURR also provides advisory services relative to utilities. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 17 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

C. Reimbursements

During the year ended June 30, 1990, the District entered into an informal agreement with both the Casa Grande High School Booster Club and the Petaluma High School Booster Club to reimburse the District for the costs of improving the two high schools' athletic facilities.

The Casa Grande High School Booster Club and the Petaluma High School Booster Club have agreed to reimburse the District a total of \$140,722 and \$251,095, respectively; the cost of improvements made through June 30, 1991, in annual installments of \$15,000 and \$10,000, respectively. The District renegotiated the agreements during the year ended June 30, 1998, allowing the Casa Grande High School Booster Club to defer payments for five years. In addition, the District relieved the Petaluma High School Booster Club of \$92,177 of the obligation. During the year ended June 30, 2003, the District relieved the Casa Grande High School Booster Club of the remaining \$32,219 outstanding balance, and received no payments from the Petaluma High School Booster Club. The remaining balance owed to the District as of June 30, 2003, by the Petaluma High School Booster Club is \$49,272.

NOTE 18 - CHARTER SCHOOLS

In accordance with Education Code Section 47605, the District had approved 2002-03 Charter School agreements with Live Oak Charter School, Sonoma Charter School, and Mary Collins School at Cherry Valley Charter School. The financial activities of the Mary Collins School at Cherry Valley Charter School are presented in the District's General Fund, and under the terms of the agreements with the Live Oak and Sonoma Charter Schools, each charter school is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted governmental accounting principles. Therefore, the financial activities of these charter schools are not included in these financial statements; however, the financial transactions between these charters and the District are included.

The District approved an agreement with Live Oak Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006.

The District approved an agreement with Sonoma Charter School in 2001 to serve students in kindergarten through eighth grade. The Charter was granted through June 30, 2006.

The District approved an agreement with Mary Collins School at Cherry Valley Charter School in 2002 to serve students in kindergarten through eighth grade. Renewal of the Charter for succeeding years is subject to approval of the operating agreement by the respective boards and determined on an annual basis.

PETALUMA CITY SCHOOLS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 19 - SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes (TRANS)

On July 1, 2003, the District issued tax and revenue anticipation notes (TRANS) for \$3,435,000. The notes mature on June 30, 2004. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

B. General Obligation Refunding Bonds

On October 29, 2003, the District issued general obligation bonds in the amount of \$4,560,000, with interest rates from 3.00% to 4.00%. The proceeds from the sale of the bonds were used for the advance refunding and defeasement of Petaluma City Schools' Election of 1991, outstanding Series B bonds, and to pay the costs of issuance of the bonds. The refunding bonds were issued as \$4,560,000 of current interest bonds.

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PIEDMONT UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Ronnie Caplane
President

Grier Graff
Vice President

Cathie Glettner
Member

June Monach
Member

Ward Lindenmayer
Member

DISTRICT ADMINISTRATION

Constance Hubbard
Superintendent

Michelle Nguyen
Director of Accounting

GENERAL AND FINANCIAL INFORMATION

Introduction

The District, formed in 1920 and unified in 1936, provides educational services to residents of the City of Piedmont (the "City") in Alameda County. The District serves a population of approximately 10,952.

The District operates three elementary schools (K-5), one middle school (6-8), one high school (9-12), one continuation school, and one adult school.

The District's 2003/04 pupil-teacher ratios are 19:1 for grades K-3, 26:1 for grades 4-5, and 26:1 for grades 6-12.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. Constance Hubbard has served in this capacity since July 2003.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

PIEDMONT UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	2,624
2001/02 ^(b)	2,611
2002/03 ^(b)	2,508
2003/04 ^(c)	2,561
2004/05 ^(c)	2,561

^(a) Includes grades K-12, special education, continuation education and home and hospital; does not include adult education.

^(b) Audited Financial Statements.

^(c) Estimated- Second Interim Report adopted on March 10, 2004.

Labor Relations

The District employs 228 full-time equivalent certificated and 151 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

PIEDMONT UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Association of Piedmont Teachers	225	June 30, 2006
California Schools Employees Association	130	June 30, 2007

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Alameda County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX A — ALAMEDA COUNTY—COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education**" and "**— Average Daily Attendance**" herein.

PIEDMONT UNION SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$12,231,104	60.96%
2001/02 ^(a)	12,593,409	58.91
2002/03 ^(b)	12,836,325	58.58
2003/04 ^(c)	12,562,908	57.78
2004/05 ^(c)	12,912,157	57.24

- ^(a) Audited Financial Statements.
^(b) Unaudited Financial Statement.
^(c) Second Interim Report adopted on March 10, 2004.
-

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects a reduction of two full-time equivalent certificated and a reduction of one full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a .5% negotiated salary increase for certificated employees, and a .5% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .91% in the 2004/05 fiscal year.

PIEDMONT UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$16,381,948	84.43%
2001/02 ^(a)	18,549,084	86.11
2002/03 ^(a)	19,553,396	89.22
2003/04 ^(b)	19,872,526	90.18
2004/05 ^(b)	20,054,045	89.69

- ^(a) Audited Financial Statements.
^(b) Unaudited Financial Statement.
^(c) Second Interim Report adopted on March 10, 2004.
-

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

PIEDMONT UNIFIED SCHOOL DISTRICT					
General Fund Revenues, Expenditures and Fund Balance					
	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources:			\$12,836,325	\$12,562,908	\$12,912,157
State Aid	\$ 5,339,073	\$ 5,175,188			
Property Taxes	6,892,031	7,418,221			
Federal Revenue	307,026	320,043	374,197	464,872	464,872
Other State Revenue	3,131,266	2,354,000	1,974,882	1,508,820	1,536,580
Other Local Revenue	4,393,205	6,111,721	6,728,828	7,206,592	7,644,005
Total Revenues	20,062,601	21,379,173	21,914,233	21,743,192	22,557,614
Expenditures					
Certificated Salaries	11,229,242	12,100,657	12,427,187	12,672,015	12,697,880
Classified Salaries	2,751,690	3,208,551	3,511,512	3,501,945	3,509,664
Employee Benefits	2,401,016	3,239,876	3,614,698	3,698,565	3,846,500
Books and Supplies	860,261	848,816	554,470	772,678	826,455
Services, Other Operating Expenses	1,731,468	1,636,743	1,841,761	1,426,609	1,515,090
Capital Outlay	116,199	181,321	5,793	4,000	4,000
Other Outgo	313,198	324,840	(40,447)	(39,800)	(39,800)
Total Expenditures	19,403,074	21,540,804	21,914,974	22,036,012	22,359,790
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	231,855	4,322	4,225	11,965	4,200
Interfund Transfers Out / Other Uses	(90,000)	(470,000)	(90,000)	(90,000)	(90,000)
Total Other Financing Sources/(Uses)	141,855	(465,678)	(85,775)	(78,035)	(85,800)
Excess of Revenues Over (Under) Expenditures	801,382	(627,309)	(86,516)	(370,855)	112,025
Beginning Fund Balance	717,462	1,518,844	891,535	768,023	273,606
Prior Year Adjustments	0	0	(36,996)	(123,563)	0
Ending Fund Balance	\$ 1,518,844	\$ 891,535	\$ 768,023	\$ 273,606	\$ 385,630

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 10, 2004.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. The District participated in the Alameda County Office of Education's issue of tax and revenue anticipation notes (the "ACOE TRAN") dated July 1, 2003, and due June 30, 2004. The District received the principal amount of \$2,000,000 from the ACOE TRAN. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "PIEDMONT UNIFIED SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.07 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

PIEDMONT UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 80,265
Projected 2004/05 Cash Receipts (Including Note Proceeds)	26,200,038
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(22,438,533)</u>
Balance	\$ 3,841,770
Note Repayment	\$ 3,604,708
NOTE COVERAGE RATIO	1.07 : 1

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “THE NOTES — Other District Funds” herein.

PIEDMONT UNIFIED SCHOOL DISTRICT Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance</u> ^{(a)(b)}	June 30, 2004, <u>Estimated Balance</u> ^{(b)(c)}	June 30, 2005, <u>Estimated Balance</u> ^(c)
Special Revenue Funds			
Adult Education	\$ 115,303	\$ 132,293	\$ 149,053
Cafeteria	249	2,299	3,304
Deferred Maintenance	415,491	417,722	404,953
Special Reserve	494,743	503,293	502,093
Subtotal for Special Revenue Funds	<u>1,025,786</u>	<u>1,055,607</u>	<u>1,059,403</u>
Capital Project Funds			
Building	135,999	127,799	119,399
Special Reserve (Capital)	187,498	181,998	177,198
Tax Override Fund	7,172	0	0
Subtotal for Capital Project Funds	<u>330,669</u>	<u>309,797</u>	<u>296,597</u>
Total Alternate Liquidity	<u>\$ 1,356,455</u>	<u>\$ 1,365,404</u>	<u>\$ 1,356,000</u>

(a) Audited Financial Statements

(b) Second Interim Report adopted on March 10, 2004.

(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

District: Piedmont Unified School District
Tax and Revenue Anticipation Notes

EXHIBIT I

ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$	\$	\$	\$	\$	(\$	\$	\$	\$	\$	\$	\$
Receipts													
Revenue Limit: Property Tax	35,743	17,834	30,844	310,223	23,730	236,711	4,276,736	7,460	73,321	2,498,090	147,920	147,926	\$
Revenue Limit: State Aid	309,447	28,646	568,564	780,454	-	390,227	780,454	-	759,433	379,715	379,715	-	\$
Other Receipts	99,146	435,156	371,265	407,844	593,249	836,113	2,952,697	71,797	388,030	2,919,970	388,030	352,535	\$
Note Proceeds and Interest Earnings	2,011,721	-	-	-	-	-	-	-	-	-	-	18,196	\$
Total Receipts	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Disbursements													
Salaries and Benefits	376,819	407,350	1,769,953	1,769,924	1,783,982	450,772	3,145,347	1,787,124	1,787,125	1,787,125	1,787,125	3,019,879	\$
Other Disbursements	315,329	210,813	500,412	295,384	273,457	158,154	81,567	195,314	245,860	245,860	245,859	290,412	\$
Note Payment Pledge	-	-	-	-	-	-	800,000	-	-	800,000	429,917	-	\$
Total Disbursements	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net Increase/Decrease	\$	((((\$	\$	((\$	(((
Ending Cash	\$	\$	\$	\$	(\$	\$	\$	\$	\$	\$	\$	\$

EXHIBIT II

PROJECTED CASHFLOW

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Receipts													
Revenue Limit: Property Tax	36,737	18,330	31,701	318,847	24,390	243,292	4,395,629	7,667	75,359	2,567,537	152,032	152,038	\$
Revenue Limit: State Aid	293,316	586,632	391,088	391,088	391,088	391,088	391,088	684,404	342,202	342,202	342,202	-	\$
Other Receipts	472,475	145,571	385,726	367,820	622,643	877,041	3,004,587	59,798	353,808	3,039,427	353,808	342,670	\$
Note Proceeds and Interest Earnings	3,544,243	-	-	-	-	-	-	-	-	-	-	60,465	\$
Total Receipts	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Disbursements													
Salaries and Benefits	380,503	411,619	1,786,493	1,786,129	1,800,675	456,560	3,174,486	1,804,310	1,804,311	1,804,311	1,804,311	3,040,338	\$
Other Disbursements	88,251	144,381	274,038	272,072	273,857	167,446	159,260	207,819	205,325	205,325	205,324	181,388	\$
Note Payment Pledge	-	-	-	-	-	-	1,400,000	-	-	1,400,000	804,708	-	\$
Total Disbursements	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net Increase/Decrease	\$	\$	(((\$	\$	((\$	((\$
Ending Cash	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Note: Beginning cash includes cash balance from Special Reserve Fund.

PIEDMONT UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

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INDEPENDENT AUDITORS' REPORT

Governing Board
 Piedmont Unified School District
 Piedmont, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Piedmont Unified School District, as of June 30, 2003, and the respective changes in financial positions, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

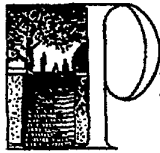
As discussed in Note 1 to the financial statements, the County recognized certain deferred state apportionments as revenue in the current fiscal year.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on pages 40 and 41, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP.
 Pleasanton, California
 December 17, 2003



PIEDMONT UNIFIED SCHOOL DISTRICT

ADMINISTRATION BUILDING

760 Magnolia Avenue • Piedmont, California 94611-4087 • (510) 594-2613

CONSTANCE HUBBARD
SUPERINTENDENT

This section of Piedmont Unified School District's 2003 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section.

This is the first year that Piedmont Unified School District is presenting financial statements in accordance with the Governmental Accounting Standards Board (GASB) No. 34. Therefore, certain data is not available for fiscal year ended June 30, 2002 for comparative analysis. Comparative analysis will be presented in future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Piedmont Unified 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 as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Piedmont Unified School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

PIEDMONT UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid and are reflected in the Statement of Activities and Changes in Net Assets.

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

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

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

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, 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, 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.

PIEDMONT UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$47,274 for the fiscal year ended June 30, 2003. Of this amount, \$370,798 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 A-1

	Governmental Activities
Current and other assets	\$ 5,096,701
Capital assets	29,867,927
Total Assets	34,964,628
Current liabilities	2,321,853
Long-term debt	32,595,501
Total Liabilities	34,917,354
Net assets	
Invested in capital assets, net of related debt	(3,500,165)
Restricted	3,176,641
Unrestricted	370,798
Total Net Assets	\$ 47,274

The \$47,274 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$47,274 left.

PIEDMONT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 12. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table A-2

	Governmental Activities
Revenues	
Program revenues	
Charges for services	\$ 31,066
Operating grants and contributions	3,690,664
General revenues:	
State revenue limit sources	5,776,459
Property taxes	11,981,256
Other general revenues	4,317,142
Total Revenues	<u>25,796,587</u>
Expenses	
Instruction related	19,604,195
Student support services	1,082,607
Administration	1,637,920
Maintenance and operations	2,253,578
Other	1,477,380
Total Expenses	<u>26,055,680</u>
Change in Net Assets	<u>\$ (259,093)</u>

Governmental Activities

As reported in the Statement of Activities on page 12, the cost of all of our governmental activities this year was \$26,055,680. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$11,981,256 because the cost was paid by those who benefited from the programs (\$31,066) or by other governments and organizations who subsidized certain programs with grants and contributions (\$3,690,664). We paid for the remaining "public benefit" portion of our governmental activities with \$10,352,694 in taxes and State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the *net* cost (total cost less revenues generated by the activities) of each of the District's five largest functions - instruction, student support services, administration, maintenance and operations, and other. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

PIEDMONT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Table A-3

	Total Cost of Services
Instruction	\$ 16,336,760
Student support services	926,577
Administration	1,350,868
Maintenance and operations	2,242,365
Other	1,477,380
Totals	<u>\$ 22,333,950</u>

The District originally projected a decrease in net assets of approximately \$94,814. Although revenues were \$1,984,920 more than expected, expenditures were \$1,245,471 more than originally projected. The majority of the increase in revenue is from the restricted Federal grants, which are expenditure driven; therefore, there is a corresponding increase in expenditures. Expenditures also increase over the original budgeted amounts due to salary settlements with the bargaining units.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$3,727,200, which is a decrease of \$93,933 from last year.

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased \$891,535 to \$644,460. This decrease is due to:
 1. Decreased enrollment
 2. Decreased State revenue
 3. The decrease in overall fund balance would have been greater if it was not for approximately \$750,000 in donation from various support organizations in the community at large.
- b. Our special revenue funds remained fairly stable from the prior year showing a net increase of \$161,198.
- c. The debt service funds showed an increase of \$117,471.

PIEDMONT UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 11, 2003. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 40 and 41).

- Significant revenue revisions made to the 2002/03 Budget were due to decreased enrollment and mid-year cuts to state programs.
- Budgeted expenditures decreased by \$1,356,495 due to the implementation of a spending freeze at mid-year and maximizing flexibility transfer allowed by state.
- There were also modifications, based on close monitoring of actual events throughout the year.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$29,867,927 in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of just under \$789,041, or 3 percent, from last year.

Table A-4

	Governmental Activities
Land	\$ 335,023
Buildings and improvements	29,207,390
Equipment	325,514
Totals	<u><u>\$ 29,867,927</u></u>

There were no significant additions due to spending freeze.

One capital project is planned for the 2003-04 year. We anticipate capital additions to be \$700,000 for the 2003-04 year.

Long-Term Debt

At the end of this year, the District had \$33,504,632 in bonds outstanding versus \$34,038,893 last year, a decrease of 1.6 percent. Those bonds consisted of:

PIEDMONT UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Table A-5

	Governmental Activities
General obligation bonds	\$ 33,165,497
Capitalized lease obligations	202,595
Other	136,540
Totals	<u><u>\$ 33,504,632</u></u>

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term debt. We present more detailed information regarding our long-term liabilities in Note #9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

Maintained educational programs for all students k-12, and settled all collective bargaining issues including increased compensation for employees through June 30, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003/2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Parcel tax revenue will increase 5%.
2. Revenue limit income will decrease 1.2% based on ADA P-2 at 6/30/03, (based on information provided by California School Services).
3. Interest earnings will remain level.
4. Federal and State income will remain level.
5. Community donations will increase by approximately \$400,000.

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 Constance Hubbard, Superintendent, at Piedmont Unified School District, Piedmont, California or e-mail at chubbard @piedmont k12.ca.us.

PIEDMONT UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

Assets	Governmental Activities
Current Assets	
Deposits and investments	\$ 3,526,874
Receivables	1,041,841
Prepaid expenses	433,378
Total current assets	<u>5,002,093</u>
Non Current Assets	
Capital assets	38,326,457
Less: Accumulated depreciation	(8,458,530)
Net capital assets	<u>29,867,927</u>
Receivables	94,608
Total non-current assets	<u>29,962,535</u>
Total assets	<u>34,964,628</u>
Liabilities	
Current Liabilities	
Accounts payable	1,034,020
Interest payable	375,241
Deferred revenue	3,461
Current portion of long-term obligations	909,131
Total current liabilities	<u>2,321,853</u>
Noncurrent portion of long-term obligations	32,595,501
Total liabilities	<u>34,917,354</u>
Net Assets	
Invested in capital assets, net of related debt	(3,500,165)
Restricted for:	
Debt service	1,586,668
Capital projects	323,497
Educational programs	33,264
Other activities	1,233,212
Unrestricted	370,798
Total net assets	<u>\$ 47,274</u>

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

PIEDMONT UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 16,359,660	\$ 25,950	\$ 2,892,132	\$ (13,441,578)
Instruction related activities:				
Supervision of instruction	501,084	-	7,369	(493,715)
Instructional library, media and technology	538,582	-	24,544	(514,038)
School site administration	2,204,869	21	317,419	(1,887,429)
Pupil services:				
Home-to-school transportation	18,757	-	14,167	(4,590)
Food services	20,205	244	14,245	(5,716)
All other pupil services	1,043,645	1,840	125,534	(916,271)
General administration:				
Data processing	241,672	-	3,006	(238,666)
All other general administration	1,396,248	3,011	281,035	(1,112,202)
Plant services	2,015,695	-	11,213	(2,004,482)
Facility acquisition and construction	237,883	-	-	(237,883)
Ancillary services	86,624	-	-	(86,624)
Interest on long-term debt	1,390,756	-	-	(1,390,756)
Total governmental-type activities	<u>\$ 26,055,680</u>	<u>\$ 31,066</u>	<u>\$ 3,690,664</u>	<u>(22,333,950)</u>
General revenues and subventions:				
Property taxes, levied for general purposes				7,595,744
Taxes levied for other specific purposes				4,385,512
Federal and State aid not restricted to specific purposes				5,776,459
Interest and investment earnings				128,818
Miscellaneous				4,188,324
Subtotal, general revenues				<u>22,074,857</u>
Change in net assets				(259,093)
Net assets - beginning				306,367
Net assets - ending				<u>\$ 47,274</u>

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

PIEDMONT UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

	General Fund	Special Reserve Non-Capital Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 516,945	\$ 495,541	\$ 1,724,497
Receivables	913,982	990	-
Prepaid expenses	195,966	-	-
Total assets	\$ 1,626,893	\$ 496,531	\$ 1,724,497
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	978,972	-	-
Deferred revenue	3,461	-	-
Total liabilities	982,433	-	-
Fund Balances:			
Reserved for:			
Other reservations	231,730	-	-
Unreserved:			
Designated	297,227	-	-
Undesignated, reported in:			
General fund	115,503	-	-
Special revenue funds	-	496,531	-
Debt service funds	-	-	1,724,497
Capital projects funds	-	-	-
Total fund balance	644,460	496,531	1,724,497
Total Liabilities and Fund Balances	\$ 1,626,893	\$ 496,531	\$ 1,724,497

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

PIEDMONT UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2003

Non Major Governmental Funds	Total Governmental Funds
\$ 789,891	\$ 3,526,874
126,869	1,041,841
-	195,966
<u>\$ 916,760</u>	<u>\$ 4,764,681</u>
55,048	1,034,020
-	3,461
<u>55,048</u>	<u>1,037,481</u>
-	231,730
-	297,227
-	115,503
531,043	1,027,574
7,172	1,731,669
323,497	323,497
<u>861,712</u>	<u>3,727,200</u>
<u>\$ 916,760</u>	<u>\$ 4,764,681</u>

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

Total Fund Balance - Governmental Funds		\$ 3,727,200
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	\$ 38,326,457	
Accumulated depreciation is	(8,458,530)	29,867,927
Prepaid Expenditures relating to issuance of GO bonds were recognized in governmental fund when paid, but are amortized as an expense over the life of the bonds on the government-wide financial statements.		237,412
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(375,241)
Special education settlement not available soon enough to pay for the current period's expenditures, and therefore is not recorded in the fund statement.		94,608
Long-term liabilities at year end consist of:		
Bonds payable	(33,165,497)	
Capital leases payable	(202,595)	
Compensated absences (vacations)	(136,540)	
	<u>(33,504,632)</u>	
Total Net Assets - Governmental Activities		<u>\$ 47,274</u>

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

PIEDMONT UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Special Reserve Non-Capital Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 12,719,300	\$ -	\$ -
Federal sources	374,197	-	-
Other state sources	2,573,407	-	22,786
Other local sources	6,728,828	8,663	2,032,448
Total Revenues	22,395,732	8,663	2,055,234
EXPENDITURES			
Current			
Instruction	14,950,713	-	-
Instruction related activities:			
Supervision of instruction	501,084	-	-
Instructional library, media and technology	492,713	-	-
School site administration	1,782,525	-	-
Pupil Services:			
Home-to school transportation	18,757	-	-
Food services	-	-	-
All other pupil services	1,043,645	-	-
General administration:			
Data processing	241,672	-	-
All other general administration	1,272,498	-	-
Plant services	2,021,179	-	-
Facility acquisition and construction	65,269	-	-
Ancillary services	86,624	-	-
Debt service			
Principal	80,353	-	979,870
Interest and other	-	-	958,177
Total Expenditures	22,557,032	-	1,938,047
Excess (deficiency) of revenues over expenditures	(161,300)	8,663	117,187
Other Financing Sources (Uses):			
Transfers in	4,225	-	-
Transfers out	(90,000)	(4,225)	-
Net Financing Sources (Uses)	(85,775)	(4,225)	-
NET CHANGE IN FUND BALANCES	(247,075)	4,438	117,187
Fund Balance - Beginning	891,535	492,093	1,607,310
Fund Balance - Ending	\$ 644,460	\$ 496,531	\$ 1,724,497

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

Nonmajor Governmental Funds		Total Governmental Funds	
\$	547,827	\$	13,267,127
	13,751		387,948
	115,431		2,711,624
	659,949		9,429,888
	<u>1,336,958</u>		<u>25,796,587</u>
	659,298		15,610,011
	-		501,084
	-		492,713
	418,581		2,201,106
	-		18,757
	20,205		20,205
	-		1,043,645
	-		241,672
	123,750		1,396,248
	993		2,022,172
	172,614		237,883
	-		86,624
	-		1,060,223
	-		958,177
	<u>1,395,441</u>		<u>25,890,520</u>
	(58,483)		(93,933)
	90,000		94,225
	-		(94,225)
	<u>90,000</u>		-
	31,517		(93,933)
	830,195		3,821,133
\$	<u>861,712</u>	\$	<u>3,727,200</u>

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PIEDMONT UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Total Net Change in Fund Balances - Governmental Funds	\$	(93,933)
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 statements of activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	\$ (805,982)	
Capital outlays	<u>16,941</u>	(789,041)
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned.		(3,763)
Repayment of issue costs of bonds is an expenditure in the governmental funds, but it should be recorded as prepaid expense and amortized on the statement of net assets.		(14,444)
Repayment of bond principal and principal paid on capital leases are an expenditure in the governmental funds, but reduce long-term liabilities in the statement of net assets and does not affect the statement of activities.		1,060,223
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of three factors. First, \$375,241 was accrued on bonds, and decreased by \$381,462 accrued bond interest relating to prior period. Second, \$430,114 of additional accumulated interest was accreted on the district's "capital appreciation" bonds. Third, \$5,755 bond premium was amortized for the current year, which reduced the interest on long-term debt.		<u>(418,135)</u>
Change in Net Assets of Governmental Activities	\$	<u>(259,093)</u>

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

PIEDMONT UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 171,759</u>
LIABILITIES	
Due to student groups	<u>\$ 171,759</u>

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

PIEDMONT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Piedmont Unified School District was organized/unified on July 1, 1936 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates three elementary, one middle school, one high school, one continuation school, and an adult school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Piedmont Unified School District, this includes general operations, food service, and student related activities of the District. The District determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agency and one public entity risk pool. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

The Alameda County Schools Insurance Group and the Schools Excess Liability Fund public entity risk pools.

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 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.

Special Reserve - Other Special Revenue Fund The Special Reserve - Other Special Revenue Fund is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes.

PIEDMONT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Bond Interest and Redemption Debt Service Fund The Bond Interest and Redemption Debt Service Fund is used to account for the accumulation of property taxes for the payment of general long-term bond principal, interest, and related costs associated with the District's major capital expenditures.

The following are the District's non-major funds:

Adult Education Fund The Adult Education Fund is used to account separately for federal, state, and local revenues for Adult Education programs.

Cafeteria Fund The Cafeteria Fund (*Education Code Section 38090*) or Cafeteria Account (*Education Code Section 38093*) is used to account separately for federal, state, and local revenue to operate the food service program.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for state apportionments and LEAs' contributions for deferred maintenance purposes (*Education Code Sections 17582-17587*).

Building Fund The Building Fund capital project fund accumulates proceeds from bond issuance to be used for the acquisition, construction, or improvements of major capital facilities.

Special Reserve for Capital Outlay Fund The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code section 42840*). Other authorized revenues that may be transferred to the Special Reserve Fund are (1) proceeds from the sale or lease with option to purchase of real property (*Education Code Section 17462*); (2) rentals and leases of real property specifically authorized for deposit to the fund by the governing board (*Education Code Section 41003*); and (3) excess amounts sufficient to pay all unpaid bond obligations (*Education Code Section 15235*).

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is classified as agency funds.

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

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes 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 financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserve of \$314,327.

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.

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense, with a like amount reported as donated commodities revenue. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2003, 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.

Prepaid Expenditures

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000 for equipment, and \$15,000 for site improvement and building. 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

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, 50 years; improvements, 50 years; equipment, 5 to 20 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 employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

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 funds.

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

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, 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.

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

Operating Revenues and Expenses Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, there are no such revenues. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

Deposits

At year-end, the carrying amount of the District's deposits were \$14,118 for governmental activities and \$171,759 held in fiduciary funds. The bank balances totaled \$646,924. Of the bank balances, \$200,000 was covered by Federal deposit insurance and \$ 446,924 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of the California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with county treasury and the State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and State treasurers for their respective pools.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

The investments at June 30, 2003, are as follows:

	Reported in Governmental Funds	Fair Value
Uncategorized:		
Deposits with county treasurer	\$ 3,433,352	\$ 3,446,721
Investment in State treasurer's pool	79,404	79,630
	<u>\$ 3,512,756</u>	<u>\$ 3,526,351</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Special Reserve Non-Capital Fund	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 100,252	\$ -	\$ -	\$ 100,252
State Government				
Apportionment	294,228	-	46,000	340,228
Categorical aid	55,425	-	-	55,425
Lottery	54,827	-	-	54,827
Other state	63,408	-	79,086	142,494
Local Government				
Interest	12,000	990	1,783	14,773
Other Local Sources	333,842	-	-	333,842
Total	<u>\$ 913,982</u>	<u>\$ 990</u>	<u>\$ 126,869</u>	<u>\$ 1,041,841</u>

Additional long term receivables include \$94,608 for a special education settlement with payments expected to be received annually over the next eight years.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 335,023	\$ -	\$ -	\$ 335,023
Capital Assets being depreciated				
Land improvements	5,394,821	-	-	5,394,821
Buildings and improvements	31,906,906	-	-	31,906,906
Furniture and equipment	672,766	16,941	-	689,707
Total Capital Assets Being Depreciated	<u>37,974,493</u>	<u>16,941</u>	<u>-</u>	<u>37,991,434</u>
Less Accumulated Depreciation				
Land improvements	677,091	107,896	-	784,987
Buildings and improvements	6,671,212	638,138	-	7,309,350
Furniture and equipment	304,245	59,948	-	364,193
Total Accumulated Depreciation	<u>7,652,548</u>	<u>805,982</u>	<u>-</u>	<u>8,458,530</u>
Governmental Activities Capital Assets, Net	<u>\$30,656,968</u>	<u>\$ (789,041)</u>	<u>\$ -</u>	<u>\$ 29,867,927</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 749,649
Instructional library, media, and technology	45,869
Plant services	10,464
Total Depreciation Expenses Governmental Activities	<u>\$ 805,982</u>

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 6 -- INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer From		
	General	Nonmajor Governmental	Total
General	\$ -	\$ 90,000	\$ 90,000
Special Reserve - Other	4,225	-	4,225
Total	\$ 4,225	\$ 90,000	\$ 94,225

The General Fund transferred to the Deferred Maintenance Fund for State match.	\$ 90,000
The Special Reserve Fund - Other transferred to the General Fund for Noda interest.	4,225
Total	\$ 94,225

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 -- ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	Nonmajor Governmental		
	General	Governmental	Total
Vendor payables	\$ 853,400	\$ 55,048	\$ 908,448
State apportionment	125,572	-	125,572
Total	\$ 978,972	\$ 55,048	\$ 1,034,020

NOTE 8 -- DEFERRED REVENUE

As of June 30, 2003, there were deferred revenues of \$3,461 for federal financial assistance reported in the General Fund.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 9 -- LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance			Balance	
	July 1, 2002	Additions	Deductions	June 30, 2003	Due in One Year
General obligation bonds	\$ 33,673,298	\$ 430,114	\$ 1,030,000	\$ 33,073,412	\$ 859,490
Add: Premium on issuance	-	97,840	5,755	92,085	5,755
Subtotal	33,673,298	527,954	1,035,755	33,165,497	-
Accumulated vacation - net	132,777	3,763	-	136,540	-
Capital leases	232,818	-	30,223	202,595	43,886
	\$ 34,038,893	\$ 531,717	\$ 1,065,978	\$ 33,504,632	\$ 909,131

Bonded Debt

The bonds issued are a combination of current interest bonds and capital appreciation bonds. The capital appreciation bonds are 1994 Series D, and 1996 Series A. The remainder of the bonds are the current interest bonds.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2002	Additions and Accretions	Redeemed	Bonds Outstanding June 30, 2003
1994-D	2019	4.9 - 6.4%	\$ 6,897,457	\$ 8,146,997	\$ 229,795	\$ 730,000	\$ 7,646,792
1994-E	2019	5.0 - 8.0%	2,900,000	2,540,000	-	85,000	2,455,000
1996-A	2020	5.0 - 6.35%	4,498,781	6,471,301	200,319	60,000	6,611,620
2001	2018	2.5 - 5.25%	17,225,000	16,515,000	-	155,000	16,360,000
				\$ 33,673,298	\$ 430,114	\$ 1,030,000	\$ 33,073,412

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Debt Service Requirements to Maturity

The bonds mature through 2023 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 859,490	\$ 1,275,209	\$ 2,134,699
2005	891,803	1,334,784	2,226,587
2006	988,906	1,372,024	2,360,930
2007	1,071,152	1,420,317	2,491,469
2008	1,158,803	1,445,640	2,604,443
2009-2013	7,421,477	7,342,610	14,764,087
2014-2018	11,119,068	6,577,001	17,696,069
2019-2023	4,514,464	3,139,953	7,654,417
Total	\$ 28,025,162	\$ 23,907,538	\$ 51,932,700
Accretions to date	5,048,250		
Total bonded debt	\$ 33,073,412		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$136,540.

Capital Leases

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 43,886
2005	43,886
2006	43,886
2007	43,886
2008	65,833
Total	241,377
Less: Amount Representing Interest	(38,782)
Present Value of Minimum Lease Payments	\$ 202,595

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Special Reserve Non-Capital	Bond Interest & Redemption	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Prepaid expenditures	195,966	-	-	-	195,966
Restricted programs	33,264	-	-	-	33,264
Total Reserved	231,730	-	-	-	231,730
Unreserved					
Designated					
Economic uncertainties	297,227	-	-	-	297,227
Undesignated	115,503	496,531	1,724,497	861,712	3,198,243
Total Unreserved	412,730	496,531	1,724,497	861,712	3,495,470
Total	\$ 644,460	\$ 496,531	\$ 1,724,497	\$ 861,712	\$ 3,727,200

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service.

For certificated employees, the District shall continue medical benefits for employees who retire at age 55 or more with 15 years or more of service with the District. The level of coverage and the medical benefit program shall be equal to the least costly single party coverage offered to the employees of the District each succeeding year. In order to qualify for benefits, the retiree must be covered for medical benefits by the District at the time of separation. The retiree may choose either Option A or Option B. If Medicare coverage is available, the District's payments for Option A or Option B will supplement Medicare in order to maintain the least costly medical plan.

For classified employees with a date of hire prior to July 1, 1989 and retiring with fifteen years employment and/or those employees disabled with ten years employment shall continue to receive equivalent level of coverage for the health plans in which they were members two years prior to retirement or disability. When the employee begins to receive Medicare benefits, a District paid health plan will supplement Medicare to provide the equivalent level of health protection enjoyed two years prior to retirement or disability. Part-time employees will receive medical coverage proportionate to that received at the time of retirement. Unused sick leave of employees, regardless of hire date, must be credited toward retirement.

For classified employees with a date of hire after July 1, 1989, the District shall continue medical benefits for those employees who retire at age 55 or more with fifteen years or more of service with the District. The level of coverage and the medical benefit program shall be equal to the least costly single party coverage offered to the employees of the District each succeeding year. In order to qualify for benefits the retiree must be covered for medical benefits by the District at the time of separation. The retiree may choose either Option A or Option B. If

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Medicare coverage is available, the District's payments for Option A or B will supplement Medicare in order to maintain the least costly medical plan.

Option A

Full medical benefits shall extend until retiree reaches 65 years of age at which time the District shall contribute to the retiree's medical benefits at a flat rate of \$75 per month. This coverage shall continue until the retiree reaches 75 years of age at which time the retiree shall have the option of participating in the District medical plan at his/her expense.

Option B

Full medical benefits shall extend until the retiree reaches 65 years of age at which time the District shall contribute to the retiree's medical benefits at a flat rate of \$100 per month. For classified employees, this coverage shall continue for a period of time equal to the number of years of service in the District. The calculation for length of service will begin at age 65. Certificated employees shall receive this benefit for life.

Currently, 33 employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees report claims/(premiums are paid). During the year, expenditures of \$98,904 were recognized for retirees' health care benefits.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with Alameda County Schools Insurance Group JPA (ACSIG) for property and liability insurance coverage. Extended property and liability coverage is provided by the Schools Excess Liability Fund (SELF). 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 2003, the District participated in the ACSIG, an insurance purchasing pool. The intent of the ACSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the ACSIG. 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 ACSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the ACSIG. Participation in the ACSIG is limited to districts that can meet the ACSIG selection criteria.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Coverage provided by ACSIG and SELF for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Alameda County Schools Insurance Group	Workers' Compensation	Statutory Limit
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	\$1million - \$24million
<u>Property and Liability Program</u>		
Alameda County Schools Insurance Group (ACSIG)	Property and Liability	\$5,000 - \$1million

NOTE 13 -- 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 2002-2003 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, 2003, 2002, and 2001, were \$1,026,265, \$976,641, and \$901,825, 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

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.884 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 year ending June 30, 2003, was \$83,032 and equaled 100 percent of the required contributions for the year. The District was not required to make contributions during the years ended June 30, 2002 and 2001.

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 use Social Security as its alternative plan. 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 the pension plan.

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 \$556,670 (4.475 percent of salaries subject to STRS) and \$2,691 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are 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 (J-200). These amounts have been recorded in these financial statements.

NOTE 14 - 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, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

PIEDMONT UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Alameda County Schools Insurance Group and the Schools Excess Liability Fund public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

	<u>ACSIG</u>	<u>SELF</u>
Entity	Alameda County Schools Insurance Group	Schools Excess Liability Fund
Purpose	Provide workers' compensation property and liability insurance.	Provide property and liability insurance.
Participants	Various districts	Various districts
Governing Board	A representative from each member district	A representative from each member district
Condensed Audited Financial Information Follows		
	<u>June 30, 2002*</u>	<u>June 30, 2002*</u>
Assets	\$ 19,824,274	\$ 112,124,000
Liabilities	14,556,688	64,484,000
Fund Equity	<u>\$ 5,267,586</u>	<u>\$ 47,640,000</u>
Revenues	62,475,475	25,829,000
Expenses	63,809,307	11,023,000
Net Increase in Fund Equity	<u>\$ (1,333,832)</u>	<u>\$ 14,806,000</u>
Payments for the Current Year	<u>\$ -</u>	<u>\$ 9,275</u>

* Most current information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

PIEDMONT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

On July 2, 2002, the District issued \$3,500,000 Tax and Revenue Anticipation Notes bearing interest at 1.6 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2003. By May, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$3,500,000 and related accrued interest and cash held in trust are not included in these financial statements.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$2,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield 1.5 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 beginning January 31, 2004, until 100 percent of principal and interest due is on account in May, 2004.

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RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT

BOARD OF TRUSTEES

Del Reid
President

Nancy Doherty
Clerk

Mark Epstein
Member

Chris Rafanelli
Member

Cynthia Evers
Member

DISTRICT ADMINISTRATION

Tim Justus
Superintendent

Bill Jackson
Assistant Superintendent, Business Services

GENERAL AND FINANCIAL INFORMATION

General

The Rincon Valley Union Elementary School District (the "District") provides services to residents in the northeastern section of Santa Rosa in Sonoma County. The District serves approximately 39,016.

The District operates eight elementary schools (K-6).

The District's 2003/04 pupil-teacher ratios are 19.5:1 for kindergarten, 19.1:1 for grades 1-3, and 27.2:1 for grades 4-6.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in alternate slates. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Tim Justus has served in this capacity since 1998.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	2,574
2001/02 ^(b)	2,604
2002/03 ^(b)	2,630
2003/04 ^(c)	2,647
2004/05 ^(c)	2,657

^(a) Includes grades K-6, special education, and extended year.

^(b) Audited Financial Statements.

^(c) Estimated - Second Interim Report adopted on March 9, 2004.

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COUNTY OF ST. LOUIS
SHORT-TERM INVESTMENT POOL SUMMARY

CASHFLOW:	FEBRUARY 04	YTD FY 04	FEBRUARY 03	YTD FY 03
BEG. CASH BALANCE	650,650,826.19	656,737,048.55	578,015,371.64	632,688,349.94
RECEIPTS	133,717,320.65	1,284,528,799.69	180,093,678.96	1,188,972,346.91
DISBURSEMENTS	(135,552,378.96)	(1,292,450,080.36)	(133,055,907.75)	(1,196,607,554.00)
ENDING CASH BALANCE	648,815,767.88	648,815,767.88	625,053,142.85	625,053,142.85

INTEREST INCOME:	FEBRUARY 04	YTD FY 04	FEBRUARY 03	YTD FY 03
INTEREST RECEIVED	874,063.14	7,500,366.03	1,795,724.89	11,219,890.32
TREASURY EXPENSE	(28,728.10)	(317,880.68)	(48,991.15)	(337,522.55)
NET DISTRIBUTION	845,335.04	7,182,485.35	1,746,733.74	10,882,367.77

BALANCE - 02/29/04:	DOLLAR COST	MARKET VALUE	MAX INVEST. AS % OF TOTAL	INVESTMENTS AS % OF TOTAL	MAX DAYS TO MATURE	AVG DAYS TO MATURE	YTM 360 EQUIV.
CERT. OF DEPOSIT	28,300,000.00	28,300,000.00	30.00%	4.45%	365	179	1.38%
NEG. CERT. OF DEP.	30,001,815.29	30,000,000.00	30.00%	4.72%	365	137	1.07%
COMMERCIAL PAPER	70,292,889.33	70,348,754.00	30.00%	11.06%	180	26	1.03%
BANKERS ACCEPTANCES	14,950,341.67	14,984,900.00	40.00%	2.35%	180	35	1.01%
MANAGED FUNDS	88,209,408.59	88,227,152.96		13.88%		1	1.14%
AGENCIES - COUPON	63,233,294.50	64,275,301.78		9.95%	1,825	596	3.33%
AGENCIES - DISCOUNT	59,547,053.33	59,809,000.00		9.37%	1,825	109	1.13%
TREASURIES - COUPON	95,938,160.53	96,129,021.47		15.10%	1,825	281	1.31%
TREASURIES - DISCOUNT	19,901,037.51	19,950,500.00		3.13%	1,825	89	0.98%
REPURCHASE AGREEMNTS	81,503,982.81	81,503,982.81		12.83%	365	1	1.00%
MEDIUM TERM NOTES	83,576,258.41	85,149,525.37	30.00%	13.15%	1,825	895	3.77%
TOTAL INVESTMENTS	635,454,241.97	638,678,138.39		100.00%		251	1.70%
CASH/BANK BALANCES	13,361,525.91	13,361,525.91					
TOTAL	648,815,767.88	652,039,664.30					

Construction Activity

The following table summarizes historical residential building permit valuation for the County.

STANISLAUS COUNTY		
Residential Building Permit Valuation		
(Dollars in Thousands)		
<u>Year^(a)</u>	<u>Units^(b)</u>	<u>Valuation^(c)</u>
1999	2,956	\$930,762
2000	2,957	391,377
2001	3,036	445,381
2002	3,029	433,100
2003	3,966	585,882

(a) As of January 1.
(b) Does not include alterations and additions.
(c) Includes all residential building activity.

Source: "California Building Permit Activity," Economic Sciences Corporation.

Commercial Activity

The following table summarizes historical taxable transactions in the County.

STANISLAUS COUNTY		
Taxable Transactions		
(Dollars in Thousands)		
<u>Year</u>	<u>Outlets</u>	<u>Taxable Transactions</u>
1998	10,280	\$4,237,571
1999	10,026	4,658,971
2000	9,953	5,195,054
2001	10,207	5,572,669
2002	10,452	5,825,865

Source: State Board of Equalization.

Major Employers

The following table summarizes the major employers in the County:

STANISLAUS COUNTY Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
E&J Gallo Winery	Manufactures California wines	3,550
Modesto City School District	Public school district	3,500
Memorial Medical Center	Medical & surgical hospital	2,000
Doctors Medical Center	Medical & surgical hospital	1,800
Conagra Grocery Products	Manufactures tomato products	1,200
Ceres Unified School District	Public school district	1,054
Brandel Manor of Emanuel	General medical & surgical hospital	1,000
Gallo Glass Co.	Manufactures glass wine bottles	950
Signature Fruit Co. LLC	Manufactures canned fruits	940
Valley Fresh Inc.	Slaughters & cans poultry	800
Turlock Joint Elementary School District	Public school district	745
Hershey Chocolate/Confectioner	Manufactures chocolate candy & confectionery products	600
Sylvan Union School District	Public school district	590
McClatchy Newspapers Inc. (Modesto Bee)	Newspaper publishing	549
Oakdale Joint Unified School District	Public school district	508
Health Services Agency	General medical & surgical hospital	450
Major-Sysco Food Service	Distributes general line groceries	415
Modesto Irrigation District	Water irrigation & electric power plant	410
California State University –Stanislaus	4 year college	400
Frito-Lay Inc.	Manufactures potato, corn & tortilla chips	400
Modesto Junior College-East	4 year college	400
Parker Hannifin Corp.	Manufactures engine shutdown systems & alarms	400
Turlock Irrigation District	Electric & wind power generation plant	400

Source: 2003 Harris InfoSource, January 2004.

Employment

The following table summarizes historical employment and unemployment in the County.

STANISLAUS COUNTY					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	182,100	182,300	186,900	189,200	191,600
Unemployment	<u>21,400</u>	<u>21,300</u>	<u>21,500</u>	<u>24,600</u>	<u>25,000</u>
Total	203,500	203,600	208,400	213,800	216,600
Unemployment Rate ^(b)	10.5%	10.5%	10.3%	11.5%	11.5%

(a) Based on place of residence; March 2003 Benchmark.

(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department

The following table summarizes the historical numbers of workers in the County by industry.

STANISLAUS COUNTY					
Estimated Number of Wage and Salary Workers by Industry^(a)					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Agricultural	16,400	15,700	14,100	13,900	13,500
Natural Resources, Mining and Construction	9,200	9,900	11,000	10,700	11,300
Manufacturing	22,900	22,800	23,000	22,500	22,600
Trade, Transportation and Utilities	29,400	29,400	30,800	31,700	32,300
Information	2,000	2,000	2,200	2,100	2,100
Financial Activities	5,300	5,100	5,400	5,600	6,100
Professional and Business Services	16,300	17,400	16,800	15,000	14,000
Educational and Health Services	15,900	16,500	17,100	18,100	19,000
Leisure and Hospitality	12,000	12,200	13,000	13,600	13,700
Other Services	5,200	5,000	5,900	6,200	6,200
Government	<u>23,700</u>	<u>23,900</u>	<u>24,600</u>	<u>25,300</u>	<u>24,900</u>
Total All Industries	<u>158,100</u>	<u>159,900</u>	<u>163,800</u>	<u>164,600</u>	<u>165,500</u>

(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are *not* comparable to the data based on the Standard Industrial Classification (SIC). Items may not add to totals due to independent rounding. March 2003 Benchmark.

Source: California Employment Development Department

STANISLAUS COUNTY ECONOMIC PROFILE

Introduction

Stanislaus County (the "County") is located in the heart of the Central Valley and comprises more than 1,500 square miles. Stanislaus is bordered by San Joaquin on the north, Calaveras and Tuolumne on the east, Merced on the south, and Santa Clara on the west.

The County's productive soils, long growing seasons and extensive transportation network combine to make a successful farm and business region. Located near large consumer and industrial marketplaces, such as San Francisco and Sacramento, many national food-related companies with extensive distribution markets call the County home. In terms of gross farm income, it is one of the nation's top ten agricultural counties. Agriculture related activities have formed the basis of Stanislaus' economy, but while agribusiness remains important, other economic sectors are expanding as well. These include commercial, industrial and service activities, which help diversify the county's base of opportunity for a growing labor force.

Population

The following table summarizes population figures for the County.

STANISLAUS COUNTY Population	
<u>Year</u>	<u>Stanislaus County</u>
2000	446,997
2001	457,500
2002	470,900
2003	483,000
2004	491,900

Source: Adjusted January 1 estimates provided by the State Department of Finance.

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APPENDIX G
STANISLAUS COUNTY

The weighted average maturity of investments in the County Pool at December 31, 2003 was 443 days. Further information on the maturities of investments in the County Pool at December 31, 2003 is presented below.

**SONOMA COUNTY POOLED INVESTMENT FUND
BREAKDOWN OF INVESTMENT MATURITIES
AS OF DECEMBER 31, 2003**

<u>Aging Interval</u>	<u>Par Value</u>	<u>Percent of Portfolio</u>
1 year or less	\$711,792,952	63.29%
More than 1 year, less than 2 years	170,410,000	15.15
More than 2 years, less than 3 years	196,435,000	17.47
More than 3 years, less than 4 years	0	0.00
More than 4 years, less than 5 years	<u>46,000,000</u>	<u>4.09</u>
TOTALS:	\$1,124,637,952	100.00%

Source: County of Sonoma Treasurer-Tax Collector's Office

The County has on occasion borrowed funds under reverse repurchase agreements, but currently has no such borrowings outstanding. No portion of the County Pool is leveraged. The County has participated in a securities lending program, which is not presently in effect. When purchasing investments for the County Pool, the Treasurer-Tax Collector generally anticipates holding the investment to maturity.

The following table summarizes the County's investment portfolio as of December 31, 2003:

**SONOMA COUNTY POOLED INVESTMENT FUND
PORTFOLIO STRUCTURE
AS OF DECEMBER 31, 2003**

	Amortized Cost/Book Value	Percent of Portfolio
Cash in Vault	39,845	0.01
Cash in Bank	22,520,570	1.95
Other Governments	773,186,972	66.80
Commercial Paper	19,999,056	1.73
Treasury Bill Notes	39,883,749	3.45
Corporate Bonds and Notes	176,154,607	15.22
LAIIF (State Pool)	388,819	0.03
Mutual Funds	99,720,242	8.61
<u>CAMP</u>	<u>25,464,464</u>	<u>2.20</u>
Total*	\$1,157,358,324	100.00

* This does not include special TRAN investments & deferred compensation

Source: County of Sonoma, Office of the Treasurer-Tax Collector

The structure of fixed and adjustable investments in the County Pool at December 31, 2003 consisted of the following:

**SONOMA COUNTY POOLED INVESTMENT FUND
FIXED AND ADJUSTABLE INVESTMENTS
AS OF DECEMBER 31, 2003**

	Amortized Cost/ <u>Book Value</u>	% of <u>Investments</u>
Non-callable bullets	\$740,638,362	65.27%
Callable bullet	141,435,000	12.46
Callable Straight Floaters	15,000,000	1.32
Straight Floating Rate Instruments	<u>237,724,543</u>	<u>20.95</u>
	\$1,134,797,905	100.00%

Source: County of Sonoma Treasurer-Tax Collector's Office

The County's Investment Pool

The Treasurer-Tax Collector manages the County's investment pool (the "County Pool") in which certain funds of the County and certain funds of other participating entities are invested pending disbursement. Amounts held for the County, school districts and special districts located within the County constitute approximately 99% of the County Pool. The Treasurer-Tax Collector is ex-officio treasurer of each of these participating entities, which therefore are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals are allowed only to pay for expenses which have become due.

Each governing board of school districts and special districts within the County may allow, by appropriate board resolutions, certain withdrawals of non-operating funds for purposes of investing outside the County Pool. None of the participating entities are currently using this authority. Some districts have from time to time authorized the Treasurer-Tax Collector to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements.

The County Pool is accounted for by the Treasurer at book value, which is based on amortized cost of purchase, including accrued interest added to the purchase price of an investment. During the County's 2002-03 fiscal year, the average balance of the County Pool was \$1,039,790,943, the highest balance at April 16, 2003 was \$1,274,620,544.66 and the lowest balance at October 11, 2002 was \$924,826,755.58. The investment portfolio is not marked to market, but the market value of the portfolio is calculated and reported quarterly to the Board of Supervisors. The latest quarterly market calculations as of December 31, 2003 showed the book value of cash and investments as \$1,157,358,324 with a market value of \$1,161,385,464. For the quarter ended December 31, 2003, the average daily investment balance of the County Pool was \$1,077,508,748 with total earnings, before deducting administration fees, of \$6,444,220. The interest rate earned before fees was 2.373%. In accordance with the Treasurer-Tax Collector's investment policy, the next market calculations will be made for March 31, 2004 in April 2004.

services, audit and any other costs as provided by Section 27013 of the Government Code. The deduction shall be adjusted to actual cost in the fourth quarter of the fiscal year.

20. Review, Monitoring and Reporting of the Portfolio

Quarterly, the County Treasurer will provide to the Pooled Investment Fund Oversight Committee, the Board of Supervisors and to any local agency participant a report on the Pooled Investment Fund. The report will list the type of investments, name of issuer, maturity date, par amount and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Investment Policy and a statement of the Pooled fund's ability to meet the expected expenditure requirements for the next six months.

Annually, the County Treasurer shall provide to the Oversight Committee a Statement of Investment Policy. Additionally, the County Treasurer will render a copy of the Statement of the Investment Policy to the legislative body of the local agencies that participate in the Pool.

21. Limits on Honoraria, Gifts and Gratuities

In accordance with California Government Code Section 27133 (d), et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolios, and members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar twelve month time period from a Broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria and gratuities in a calendar twelve (12) month time period in excess of \$280. Any violation must be reported to the State Fair Political Practices Commission.

22. Audits

The County Auditor shall audit the County Treasurer's investment function for compliance with policy and state law. The results of this audit shall be reported on, at least annually, to the Treasurer and the Oversight Committee. In addition, the County Auditor shall perform a quarterly review of current investments and report any material non-compliance with the Investment Policy or state law.

23. Exception to the Policy

The County Treasurer, except as prohibited by state law, can make exceptions to the investment purchasing limits when he deems it in the best interest of all of the pool participants. All exceptions will be reported in the quarterly report.

24. Investment of Bond Proceeds

The County Treasurer shall invest bond proceeds using the standards of the County of Sonoma's Investment Policy. The bond proceeds will be invested in securities permitted by the bond documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by the County of Sonoma's Investment Policy.

Broker/Dealers and Financial Institutions or broker/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed . All Dealers and financial institutions must have a strong industry reputation and open lines of credit with other dealers. Further, these firms must have an investment grade rating from at least one national rating service, if applicable.

Broker/Dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer and financial institution authorized to do business with Sonoma County shall, at least annually, supply the County Treasurer with audited financial statements.

17. Withdrawal Requests

- a. **STATUTORY PARTICIPANTS** - The County Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Sonoma County Auditor-Controller at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with California Government Code Section 27136, et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled investment Fund as of the date of the withdrawal.
- b. **VOLUNTARY PARTICIPANTS** - For outside participants who utilize Government Code Section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request, with the exception of normal cash flow withdrawals, shall submit the request for withdrawal to the County Treasurer to determine the timing of the payout, in order that the withdrawal will not adversely affect the interests of the other depositors in the County Treasury Investment Fund. Withdrawals will be paid based upon the market value of the Pooled Investment Fund. If the Treasurer deems appropriate, the deposits may be returned at any time.

18. Delivery and Safekeeping

Delivery of all securities shall be either to the County Treasurer or to a third party custodian. No securities shall be held in the safekeeping of a broker / dealer unless it is collateral for a reverse repurchase agreement.

19. Apportionment of Interest and Costs

Interest shall be apportioned to all pool participants quarterly, based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Investment Pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. The Treasurer shall deduct from the gross interest earnings those budgeted administrative costs relating to the management of the Treasury, including salaries and other compensation, banking costs, equipment costs, supplies, the cost of information

(See Section 12)	92 days	20	N/A
Medium Term Corporate Notes	5 yr.	30	A
Shares of a Mutual Fund	20		Aaa or AAAM or section 13
Collateralized Mortgage Obligations	5 yr.	20	AA
Joint Powers agreement	5 yr.	20	

10. Bankers Acceptance

No more than 30 percent of the agency's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

11. Commercial Paper

All commercial paper issuers must maintain an "A1" rating by Standard & Poor's Corporation, a "P1" rating by Moody's Investor Service, or a "F1" rating by Fitch Financial Services issued by corporations operating within the United States, and having total assets in excess of five hundred million dollars (500,000,000.00).

12. Repurchase and Reverse Repurchase Agreements / Lending Agreements

Under California Government Code Section 53601, Paragraph (I) and Section 53635 the County Treasurer may enter into Repurchase Agreements and Reverse Repurchase Agreements / Lending Agreements. The maximum maturity of Repurchase Agreements shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement / lending agreements may not be invested beyond the expiration of the agreement. The reverse repurchase agreement / lending agreements must be "matched to maturity."

13. Shares of a Mutual Fund

A Mutual Fund managed by an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by Government Code Section 53601, subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and with assets under management in excess of five hundred million dollars (\$500,000,000.00).

14. Joint Power Agreement

With approval of the Board of Supervisors, the Treasurer is allowed to enter into a Joint Power Agreement with governments whose policies are consistent with or more restrictive than Sonoma County's Statement of Investment Policy.

15. Collateral

Repurchase agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted. For purposes of investing the daily excess bank balance, the collateral provided by the County's depository bank can include mortgage-backed securities valued at 100%.

16. Criteria for the Selection of Broker/Dealers and Financial Institutions

All transactions initiated on behalf of the Pooled Investment Fund and Sonoma County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York, financial institutions that directly issue their own securities which have been placed on the Approved List of

5. Participants

- a. STATUTORY PARTICIPANTS - General Participants are those government agencies within the County of Sonoma for which the Sonoma County Treasurer is statutorily designated as the Custodian of Funds.
- b. VOLUNTARY PARTICIPANTS - Other local agencies, such as Special Districts and Cities for which the Treasurer is not the statutory designated Custodian of Funds may participate in the Pooled Investment Fund. Such participation is subject to the consent of the County Treasurer and must be in accordance with the California Code Section 53684, et seq. The agency must approve in writing the Sonoma County Pooled Investment Fund as an authorized investment and accept the County of Sonoma Investment Policy.

6. Authorized Persons

The Sonoma County Board of Supervisors, by resolution, has delegated investment responsibility for the Sonoma County Investment Program to the Treasurer-Tax Collector. Daily management responsibility of the investment program has been assigned to the Assistant Treasurer. The Treasury Manager is also authorized to initiate investment transactions.

All investment decisions shall be made with care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting as a trustee, in a like capacity and familiarity would use in the conduct of funds of a like character, and with like aims, to safeguard the principal and maintain the liquidity needs of depositors.

7. Authorized Investments

Authorized investments shall match the general categories established by the California Government Code Sections 53601, et. seq. and 53635, et. seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1, investments into the State Local Agency Investment Fund (LAIF). As the California Government Code is amended, this Policy shall likewise become amended.

8. Prohibited Investments

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

9. Investment Criteria

Name	Maximum Maturity	% of Pool	Rating
U. S. Treasury and Agency Securities	5 yr.	100	N/A
Bonds issued by the local agencies	5 yr.	100	N/A
Registered State Warrants and Municipal Notes	5 yr.	100	N/A
Bankers Acceptances (See Section 10)	180 days	40	N/A
Commercial Paper (See Section 11)	270 days	40	A1+, P1, or F1
Negotiable Certificates of Deposit	5 yr.	30	N/A
Repurchase Agreements (See Section 12)	1 yr.	100	N/A
Reverse Repurchase Agreements			

Investment Policy

Under the authority delegated to the County Treasurer by the Board of Supervisors to invest and reinvest all of the funds in the County Treasury and, in accordance with the California Government Code, the following sets forth the investment policy of the County of Sonoma:

1. Policy Statement

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Sonoma County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. seq., and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives.

2. Standard of Care

The County Treasurer is the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the prudent investor standard. The County Treasurer, employees involved in the investment process and the members of the Pooled Investment Fund Oversight Committee (Oversight Committee) shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the Policy.

3. Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance:

- a. SAFETY OF CAPITAL - The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
- b. LIQUIDITY - As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirements which may be reasonably anticipated in any depositor's fund.
- c. MAXIMUM RATE OF RETURN - As the third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein.

4. Implementation

In order to provide direction to those responsible for management of the Pooled Investment Fund, the County Treasurer has established this Policy and presented it to the Pooled Investment Oversight Committee and the Board of Supervisors, and has provided the report to the legislative body of local agencies that participate in the Pooled Investment Fund.

The Policy defines investible funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of broker-dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Pooled Investment Fund Oversight Committee; the manner of appropriating costs; and the criteria to request withdrawal of funds.

**QUARTERLY REPORT AND CERTIFICATION
OF THE COUNTY TREASURER
For Quarter Ending March 31, 2004**

The Government Code requires the County Treasurer to render a Quarterly Report to the County Administrator, the Board of Supervisors, the County Auditor, the Treasury Oversight Committee, and the participants of the Treasury Pool.

The Quarterly Report shall state compliance of the portfolio to the County Investment Policy and denote the ability of the pool to meet its pool's expenditures for the next six months, or provide an explanation as to why sufficient money shall or may not be available.

COMPLIANCE CERTIFICATION

I certify that the investments of the Sonoma County Investment Pool are in compliance with the County Investment Policy.

I further certify that the pool has sufficient cash flow available to meet all budgeted expenditure requirements for the next six months.

Robert Boitano
Assistant Treasurer
County of Sonoma

Construction Activity

The following table summarizes historical residential building permit valuation for the County.

SONOMA COUNTY
Residential Building Permit Valuation
(Dollars in Thousands)

<u>Year^(a)</u>	<u>Units^(b)</u>	<u>Valuation^(c)</u>
1999	3,036	\$408,199
2000	2,505	369,134
2001	2,583	333,896
2002	1,928	279,414
2003	2,252	394,616

(a) As of January 1.

(b) Does not include alterations and additions.

(c) Includes all residential building activity.

Source: "California Building Permit Activity," Economic Sciences Corporation.

Commercial Activity

The following table summarizes historical taxable transactions in the County.

SONOMA COUNTY
Taxable Transactions
(Dollars in Thousands)

<u>Year</u>	<u>Outlets</u>	<u>Taxable Transactions</u>
1998	16,195	\$5,383,612
1999	16,337	6,017,754
2000	16,291	6,823,544
2001	16,612	6,819,365
2002	16,779	6,702,865

Source: State Board of Equalization.

Major Employers

The following table summarizes the major employers in the County.

SONOMA COUNTY Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Agilent Technologies Inc.	Manufactures test & measurement equipment, electronic components	3,900
Sonoma Developmental Center	Rehabilitation hospital specializing in developmentally disabled individuals	2,600
Santa Rosa City School District	Public school district	1,600
Medtronic Ave Inc.	Manufactures medical diagnostic & surgical instruments & apparatus	1,500
JD Uniphase	Designs & manufactures optical thin film coated components on both rigid & flexible substrates	1,230
State Farm Mutual Automobile	Regional offices of a direct automobile, fire, life, health & homeowners' insurance services	1,200
Cisco Systems Inc.	Provides telecommunications equipment engineering services	1,000
Kaiser Medical Center	Medical & surgical hospital	1,000
Santa Rosa Junior College	4 year college	1,000
Safeway Food & Drug	Retail grocery store	949
Washington Mutual Bank FA	Mortgage & loan services	750
Advanced Fibre Communications	Manufactures telecommunication digital loop carriers	680
Cotati-Rohnert Park Unified School District	Public school district	630
Amy's Kitchen Inc.	Manufactures organic frozen foods	600
Santa Rosa Memorial Hospital	General medical & surgical hospital	600
Fairmont Mission Inn & Spa	Full service hotel	600
Home Depot Inc.	Retail home improvement store	550
Sonoma Valley Unified School District	Public school district	535
New York Times Press Democrat	Daily newspaper publishing	450
Sonoma Valley Hospital	General medical & surgical hospital services	445
Illuminations	Retail candles	420
Sonoma State University	4 year college	400
Exchange Bank	Administrative office for State commercial bank	400
Legacy Marketing Group	Life insurance & annuity products marketing services	400
Alcatel USA Inc.	Manufactures, researches, develops & markets next generation loop carrier equipment	400

Source: 2003 Harris InfoSource, January 2004.

The following table summarizes the historical numbers of workers in the County, by industry.

SONOMA COUNTY
Estimated Number of Wage and Salary Workers by Industry^(a)
(in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Agricultural	6,400	6,900	7,000	6,500	5,700
Natural Resources and Mining	400	400	300	300	300
Construction	11,900	13,100	13,700	13,300	12,800
Manufacturing	29,200	30,200	30,400	27,300	25,200
Trade, Transportation and Utilities	33,200	33,600	34,100	34,100	33,700
Information	3,600	4,100	4,500	4,200	3,900
Financial Activities	10,000	10,200	10,400	10,300	10,400
Professional and Business Services	19,500	20,600	20,000	19,000	18,800
Educational and Health Services	21,100	22,000	22,900	23,300	22,700
Leisure and Hospitality	17,500	17,900	18,700	19,700	19,700
Other Services	6,300	6,400	6,800	6,700	6,400
Government	<u>26,600</u>	<u>27,600</u>	<u>28,000</u>	<u>28,000</u>	<u>26,800</u>
Total All Industries	<u>185,700</u>	<u>193,000</u>	<u>196,700</u>	<u>192,700</u>	<u>186,300</u>

^(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are *not* comparable to the data based on the Standard Industrial Classification (SIC). This table reflects NAICS figures. Items may not add to totals due to independent rounding. March 2003 Benchmark.

Source: California Employment Development Department, Labor Market Information Division.

SONOMA COUNTY ECONOMIC PROFILE

Introduction

Sonoma County (the "County"), one of California's 27 original counties, is located approximately 40 miles north of San Francisco. The County is the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, the County encompasses 1,598 square miles. Geographically, the County is divided almost equally into mountainous regions, rolling hills, and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. St. Helena, where Sonoma, Napa, and Lake counties converge.

Population

The following table summarizes population figures for the County.

SONOMA COUNTY Population

<u>Year</u>	<u>Sonoma County</u>
2000	458,614
2001	463,900
2002	468,000
2003	469,500
2004	472,700

Source: Adjusted January 1 estimates provided by the State Department of Finance.

Employment

The following table summarizes historical employment and unemployment in the County.

SONOMA COUNTY Civilian Labor Force, Employment and Unemployment Annual Averages

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	244,100	250,100	253,900	250,500	244,800
Unemployment	<u>6,700</u>	<u>6,800</u>	<u>7,700</u>	<u>11,900</u>	<u>12,600</u>
Total	250,800	256,900	261,600	262,400	257,400
Unemployment Rate ^(b)	2.7%	2.6%	2.9%	4.5%	4.9%

^(a) Based on place of residence. Based on a March 2003 benchmark.

^(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division.

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APPENDIX F
SONOMA COUNTY

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Fund C - COMMINGLED FUNDS

Cash

March 31, 2004

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Market Value	Current Rate	YTM 360	YTM 365
Passbook/Checking Accounts								
	793B	BANK OF THE WEST	07/01/2003	8,776,000.00	8,776,000.00		0.000	0.000
			Subtotal and Average	8,776,000.00	8,776,000.00		0.000	0.000
			Total Cash and Average	8,776,000.00	8,776,000.00		0.000	0.000
			Total Cash and Investments	3,213,050,547.95				

Fund C - COMMINGLED FUNDS
Investments
March 31, 2004

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Commercial Paper Disc. -Amortizing											
4497WOF11	12358	ING FUNDING	12/03/2003	29,939,508.33	30,000,000.00	29,947,800.00	1.190	1.197	1.213	06/01/2004	61
4497W0F11	12363	ING FUNDING	12/03/2003	29,939,508.33	30,000,000.00	29,947,800.00	1.190	1.197	1.213	06/01/2004	61
4497W0G28	12471	ING FUNDING	01/08/2004	24,929,722.22	25,000,000.00	24,934,750.00	1.100	1.105	1.121	07/02/2004	92
4497W0E36	12488	ING FUNDING	01/15/2004	19,981,511.11	20,000,000.00	19,981,400.00	1.040	1.043	1.057	05/03/2004	32
4497W0G10	12557	ING FUNDING	02/27/2004	12,865,868.75	13,000,000.00	12,866,200.00	1.035	1.038	1.053	07/01/2004	91
4497W0HX9	12572	ING FUNDING	03/10/2004	24,889,694.45	25,000,000.00	24,892,500.00	1.045	1.050	1.064	08/31/2004	152
44977RGD3	12585	ING FUNDING	03/16/2004	29,910,733.34	30,000,000.00	29,897,100.00	1.040	1.043	1.058	07/13/2004	103
4497W0JA7	12598	ING FUNDING	03/19/2004	24,880,750.00	25,000,000.00	24,885,000.00	1.060	1.065	1.080	09/10/2004	162
4497W0JA7	12608	ING FUNDING	03/25/2004	19,904,150.00	20,000,000.00	19,908,000.00	1.065	1.070	1.085	09/10/2004	162
90262CG76	12474	UNION BANK OF SWITZERLAND	01/09/2004	24,929,270.83	25,000,000.00	24,931,250.00	1.050	1.055	1.070	07/07/2004	97
90262CE37	12585	UNION BANK OF SWITZERLAND	03/19/2004	14,988,533.33	15,000,000.00	14,985,150.00	1.010	1.011	1.025	05/03/2004	32
Subtotal and Average				692,242,812.06	694,000,000.00	692,284,870.00		1.059	1.074		86
Federal Agency Disc. -Amortizing											
313312E48	12482	FED FARM CREDIT	01/05/2004	22,687,836.67	23,000,000.00	22,888,799.45	1.140	1.163	1.179	09/02/2004	154
313312A91	12470	FED FARM CREDIT	01/08/2004	24,904,750.00	25,000,000.00	24,809,999.85	1.080	1.100	1.115	08/08/2004	127
313384XS3	12367	FHLB DISCOUNT	12/08/2003	49,800,444.45	50,000,000.00	49,910,003.65	1.120	1.126	1.141	06/04/2004	64
313396YF4	12420	FHLMC NOTES	12/18/2003	34,918,027.08	35,000,000.00	34,926,497.66	1.085	1.101	1.116	06/17/2004	77
313396YF4	12421	FHLMC NOTES	12/18/2003	39,905,888.89	40,000,000.00	39,915,997.32	1.100	1.106	1.121	06/17/2004	77
313396A60	12520	FHLMC NOTES	02/04/2004	21,918,160.00	22,000,000.00	21,922,998.66	1.080	1.085	1.100	08/03/2004	124
313396WJ8	12180	FHLMC DISCOUNT	09/26/2003	24,975,444.45	25,000,000.00	24,977,500.93	1.105	1.126	1.141	05/03/2004	32
313396YK3	12334	FHLMC DISCOUNT	11/24/2003	19,948,260.00	20,000,000.00	19,954,000.88	1.150	1.171	1.188	06/21/2004	81
313396A80	12523	FHLMC DISCOUNT	02/05/2004	15,257,031.82	15,314,000.00	15,260,400.07	1.080	1.085	1.100	06/03/2004	124
313396A60	12529	FHLMC DISCOUNT	02/10/2004	19,925,844.44	20,000,000.00	19,929,998.78	1.075	1.080	1.095	08/09/2004	124
313588XX8	12362	FNMA NOTES	12/11/2003	42,808,105.41	43,000,000.00	42,918,298.97	1.115	1.121	1.136	06/09/2004	69
313588ZY4	12512	FNMA NOTES	02/02/2004	34,877,247.22	35,000,000.00	34,884,499.37	1.070	1.075	1.090	07/28/2004	118
313588XK6	11916	FNMA DISCOUNT NOTE	06/25/2003	39,943,000.00	40,000,000.00	39,935,998.52	0.800	0.921	0.933	06/28/2004	57
313588WV3	12230	FNMA DISCOUNT NOTE	10/17/2003	24,965,958.33	25,000,000.00	24,970,001.23	1.140	1.166	1.182	05/14/2004	43
313588YK5	12325	FNMA DISCOUNT NOTE	11/20/2003	49,870,826.00	50,000,000.00	49,885,002.15	1.150	1.172	1.188	06/21/2004	81
313588E35	12567	FNMA DISCOUNT NOTE	03/04/2004	49,773,887.50	50,000,000.00	49,779,998.80	1.065	1.070	1.085	09/01/2004	153
Subtotal and Average				516,880,401.36	518,314,000.00	516,979,996.27		1.102	1.117		81
Total Investments and Average				3,204,274,547.95	3,204,099,000.00	3,215,393,673.12		1.628	1.651		378

Fund C - COMMINGLED FUNDS

Investments
March 31, 2004

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Federal Agency Issues - Coupon											
3136F4MA9	12233	FNMA CALLABLE	10/20/2003	12,800,000.00	12,900,000.00	12,908,062.50	2.250	2.219	2.250	01/20/2006	669
3136F4MA9	12234	FNMA CALLABLE	10/20/2003	15,825,000.00	15,825,000.00	15,834,890.63	2.250	2.219	2.250	01/20/2006	659
3136FALJ1	12235	FNMA CALLABLE	10/20/2003	24,000,000.00	24,000,000.00	27,676,560.00	2.020	1.992	2.020	10/20/2005	567
3136F4PE0	12257	FNMA CALLABLE	10/28/2003	10,000,000.00	10,000,000.00	10,046,875.00	2.050	2.021	2.050	10/28/2005	575
3136F4QB3	12259	FNMA CALLABLE	10/28/2003	26,425,000.00	26,425,000.00	26,581,896.44	2.260	2.229	2.260	10/28/2005	575
31359MTK9	12315	FNMA CALLABLE	11/18/2003	15,011,966.41	15,000,000.00	15,034,791.67	2.125	2.175	2.205	10/14/2005	561
3136F5AA9	12549	FNMA CALLABLE	02/24/2004	10,000,000.00	10,000,000.00	10,046,875.00	2.550	2.515	2.550	08/24/2006	875
Subtotal and Average				1,695,425,156.82	1,694,285,000.00	1,704,363,583.16		1.962	1.990		555
Treasury Securities - Coupon											
9128277F3	11744	U.S. TREASURY NOTES	04/16/2003	25,668,962.47	25,000,000.00	26,054,667.50	3.500	2.393	2.427	11/15/2006	968
912828BB5	11894	U.S. TREASURY NOTES	06/18/2003	25,006,985.23	25,000,000.00	25,015,625.00	1.250	1.208	1.225	05/31/2005	425
912828BC3	11925	U.S. TREASURY NOTES	06/30/2003	49,844,391.24	50,000,000.00	49,950,125.00	1.125	1.380	1.379	08/30/2005	455
912828BE9	12073	U.S. TREASURY NOTES	08/22/2003	24,872,812.72	25,000,000.00	25,085,937.50	1.500	1.865	1.891	07/31/2005	486
912828BL34	12225	U.S. TREASURY NOTES	10/16/2003	24,946,208.48	25,000,000.00	25,117,187.50	1.625	1.747	1.771	09/30/2005	547
Subtotal and Average				150,339,360.14	150,000,000.00	151,226,562.50		1.659	1.682		556
Commercial Paper Disc. -Amortizing											
17307JHZ1	12516	CITIGROUP	02/03/2004	15,941,506.68	16,000,000.00	15,944,320.00	1.070	1.075	1.090	08/02/2004	129
17307JF23	12540	CITIGROUP	02/18/2004	34,937,311.11	35,000,000.00	34,937,700.00	1.040	1.043	1.057	08/02/2004	62
17307JG22	12542	CITIGROUP	02/19/2004	24,932,916.67	25,000,000.00	24,934,750.00	1.050	1.054	1.066	07/02/2004	92
17307JGWS	12573	CITIGROUP	03/10/2004	34,878,666.66	35,000,000.00	34,861,000.00	1.040	1.044	1.058	07/30/2004	120
17307JHX3	12589	CITIGROUP	03/17/2004	24,890,222.22	25,000,000.00	24,892,500.00	1.040	1.045	1.059	08/31/2004	152
17307JE40	12592	CITIGROUP	03/18/2004	19,981,300.00	20,000,000.00	19,980,800.00	1.020	1.021	1.035	05/04/2004	33
17307JFP2	12603	CITIGROUP	03/23/2004	49,881,263.69	50,000,000.00	49,852,000.00	1.030	1.032	1.047	06/23/2004	83
25153JG95	12484	DEUTSCHEBANK	01/15/2004	24,927,812.50	25,000,000.00	24,929,750.00	1.050	1.055	1.070	07/09/2004	99
2521E0FW2	12607	DEXIA	03/25/2004	49,871,675.00	50,000,000.00	49,872,000.00	1.025	1.027	1.042	06/30/2004	90
36959HH34	12525	GENERAL ELECTRIC	02/05/2004	9,962,111.11	10,000,000.00	9,964,900.00	1.100	1.106	1.121	08/03/2004	124
36959HJ16	12574	GENERAL ELECTRIC	03/10/2004	19,910,750.00	20,000,000.00	19,913,400.00	1.050	1.055	1.070	09/01/2004	153
36959HD12	12623	GENERAL ELECTRIC	03/31/2004	35,000,000.00	35,000,000.00	35,000,000.00	1.020	1.020	1.034	04/01/2004	0
36959HD12	12624	GENERAL ELECTRIC	03/31/2004	50,000,000.00	50,000,000.00	50,000,000.00	1.020	1.020	1.034	04/01/2004	0
3697X0HHS	12584	GREENWICH CAPITAL	03/03/2004	19,917,200.00	20,000,000.00	19,922,000.00	1.080	1.085	1.100	08/17/2004	138
3697X0FF0	12589	GREENWICH CAPITAL	03/22/2004	19,952,505.55	20,000,000.00	19,952,800.00	1.030	1.032	1.047	06/23/2004	83

Portfolio SCLC
AC

Fund C - COMMINGLED FUNDS
Investments
March 31, 2004

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Federal Agency Issues - Coupon											
3134A4RV6	12432	FHLMC NOTES	12/19/2003	20,066,217.62	20,000,000.00	20,106,250.00	1.675	1.430	1.450	01/15/2005	289
3134A4LX0	12434	FHLMC NOTES	12/22/2003	35,535,196.78	35,000,000.00	35,576,284.72	3.250	1.292	1.310	11/15/2004	228
3128X1U88	12465	FHLMC NOTES	01/08/2004	37,970,240.03	37,855,000.00	38,043,158.29	2.050	2.128	2.157	10/14/2005	561
3133X3XB4	12554	FHLMC NOTES	02/26/2004	12,750,000.00	12,750,000.00	12,761,953.13	1.850	1.824	1.850	08/26/2005	512
3128X1LY1	11919	FHLMC CALLABLE	08/26/2003	20,000,000.00	20,000,000.00	20,035,479.74	2.300	2.268	2.300	12/26/2006	999
3128X1RH2	11961	FHLMC CALLABLE	07/14/2003	10,000,000.00	10,000,000.00	10,021,209.72	2.125	2.095	2.125	07/14/2006	834
3128X1T49	12187	FHLMC CALLABLE	10/01/2003	25,000,000.00	25,000,000.00	25,031,600.95	1.750	1.726	1.750	08/28/2005	453
3128X13M7	12258	FHLMC CALLABLE	10/28/2003	20,000,000.00	20,000,000.00	20,016,159.06	2.280	2.258	2.290	10/28/2005	575
3128X15P6	12294	FHLMC CALLABLE	11/10/2003	12,250,000.00	12,250,000.00	12,329,906.51	2.250	2.219	2.250	11/10/2005	588
3128X15P8	12295	FHLMC CALLABLE	11/10/2003	20,650,000.00	20,650,000.00	20,784,699.54	2.250	2.219	2.250	11/10/2005	588
3128X2JT3	12453	FHLMC CALLABLE	12/30/2003	9,997,269.97	10,000,000.00	10,075,329.59	2.200	2.185	2.216	12/30/2005	638
3128X2KL8	12473	FHLMC CALLABLE	01/09/2004	10,000,000.00	10,000,000.00	10,029,710.39	2.300	2.268	2.300	01/09/2006	648
3128X2LT0	12496	FHLMC CALLABLE	01/23/2004	10,000,000.00	10,000,000.00	10,036,160.28	2.375	2.342	2.375	01/23/2006	662
3128X2PN9	12503	FHLMC CALLABLE	01/27/2004	20,000,000.00	20,000,000.00	20,050,720.22	2.010	1.982	2.010	01/27/2006	666
3128X2TU9	12536	FHLMC CALLABLE	02/17/2004	10,000,000.00	10,000,000.00	10,035,260.01	2.150	2.120	2.150	02/17/2006	667
3128X1GF8	12602	FHLMC CALLABLE	03/23/2004	5,034,062.50	5,000,000.00	5,039,697.46	2.250	2.218	2.249	12/04/2006	977
3128X22W4	12618	FHLMC CALLABLE	03/29/2004	10,000,000.00	10,000,000.00	10,035,728.88	2.400	2.367	2.400	03/29/2007	1,092
3136F3HW9	11719	FNMA CALLABLE	04/08/2003	25,000,000.00	25,000,000.00	25,007,812.50	2.000	1.972	2.000	04/08/2005	372
3136F3KL9	11734	FNMA CALLABLE	04/14/2003	24,987,999.13	25,000,000.00	25,007,612.50	2.170	2.172	2.202	10/14/2005	561
3136F3KL9	11735	FNMA CALLABLE	04/14/2003	25,000,000.00	25,000,000.00	25,007,812.50	2.170	2.140	2.170	10/14/2005	561
3136F3PT7	11798	FNMA CALLABLE	04/30/2003	35,000,000.00	35,000,000.00	35,032,812.50	2.280	2.248	2.280	10/28/2005	575
3136F3PH3	11809	FNMA CALLABLE	05/05/2003	30,000,000.00	30,000,000.00	30,018,750.00	2.080	2.022	2.050	08/05/2005	491
3136F3E85	11934	FNMA CALLABLE	07/02/2003	20,000,000.00	20,000,000.00	19,981,250.00	1.625	1.602	1.624	12/30/2005	638
3136F3E36	11945	FNMA CALLABLE	07/08/2003	10,000,000.00	10,000,000.00	10,003,125.00	1.450	1.430	1.450	07/08/2005	463
3138F3G34	11946	FNMA CALLABLE	07/08/2003	20,000,000.00	20,000,000.00	19,993,750.00	1.400	1.380	1.400	07/08/2005	463
3138F3L87	11947	FNMA CALLABLE	07/08/2003	24,992,065.97	25,000,000.00	25,015,625.00	1.500	1.504	1.525	07/08/2005	463
31359MSE4	12016	FNMA CALLABLE	07/30/2003	24,622,307.85	25,000,000.00	24,867,187.50	1.750	2.428	2.462	08/18/2006	808
3136F4AL8	12078	FNMA CALLABLE	08/26/2003	10,000,000.00	10,000,000.00	10,031,250.00	2.060	2.031	2.060	08/26/2005	512
31359MRJ4	12100	FNMA CALLABLE	09/03/2003	24,795,585.11	25,000,000.00	25,007,812.50	2.375	2.755	2.794	04/13/2006	742
3136F3QQ2	12127	FNMA CALLABLE	09/10/2003	14,586,817.76	14,600,000.00	14,613,667.50	2.125	2.110	2.139	11/07/2005	586
3136F4LE	12188	FNMA CALLABLE	09/29/2003	20,000,000.00	20,000,000.00	20,050,000.00	2.200	2.169	2.200	12/29/2005	637
3136F4KY9	12208	FNMA CALLABLE	10/07/2003	9,625,000.00	9,625,000.00	9,625,000.00	2.500	2.465	2.500	04/07/2006	736

Fund C - COMMINGLED FUNDS

Investments
March 31, 2004

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Federal Agency Issues - Coupon											
31331TPW5	12505	FARM CREDIT CALLABLE	01/28/2004	10,000,000.00	10,000,000.00	10,100,000.00	2.580	2.524	2.560	07/28/2008	848
3133MUJS5	12066	FHLB NOTES	08/21/2003	20,084,886.67	20,000,000.00	20,137,500.00	2.125	1.495	1.516	12/15/2004	258
3133MYXD4	11868	FHLB CALLABLE	06/05/2003	23,105,000.00	23,105,000.00	23,155,542.19	2.600	2.584	2.600	12/05/2006	978
3133MYWS2	11869	FHLB CALLABLE	06/05/2003	13,803,552.38	13,810,000.00	13,835,893.75	2.500	2.484	2.518	09/05/2006	887
31339X7L2	11890	FHLB CALLABLE	06/17/2003	25,000,000.00	25,000,000.00	25,015,825.00	1.625	1.602	1.625	06/17/2005	442
31339YDG4	11951	FHLB CALLABLE	07/09/2003	9,000,000.00	9,000,000.00	8,980,312.50	1.550	1.528	1.550	01/09/2008	648
31339XZK5	11952	FHLB CALLABLE	07/09/2003	20,000,000.00	20,000,000.00	20,000,000.00	1.750	1.627	1.650	01/09/2008	648
31339YP63	11977	FHLB CALLABLE	07/21/2003	10,000,000.00	10,000,000.00	10,003,125.00	1.500	1.479	1.500	07/21/2005	478
31339YDE9	11982	FHLB CALLABLE	07/22/2003	20,000,000.00	20,000,000.00	20,000,000.00	1.450	1.430	1.450	07/22/2005	477
31339YV74	12015	FHLB CALLABLE	07/30/2003	50,000,000.00	50,000,000.00	50,078,125.00	1.840	1.814	1.840	01/30/2006	669
31339XXH2	12030	FHLB CALLABLE	08/05/2003	19,763,670.52	20,000,000.00	20,008,250.00	1.700	2.366	2.399	12/30/2005	638
3133X0JL6	12043	FHLB CALLABLE	08/11/2003	18,581,405.10	18,635,000.00	18,658,293.75	1.660	1.810	1.835	08/11/2005	487
3133X14G9	12182	FHLB CALLABLE	09/30/2003	10,000,000.00	10,000,000.00	10,058,250.00	2.330	2.298	2.330	09/30/2005	547
31339YCK6	12201	FHLB CALLABLE	10/01/2003	24,990,036.99	25,000,000.00	25,000,000.00	1.935	1.147	1.163	07/23/2004	113
3133X1GU5	12218	FHLB CALLABLE	10/14/2003	10,000,000.00	10,000,000.00	10,043,750.00	2.040	2.012	2.040	10/14/2005	561
3133X1GU5	12219	FHLB CALLABLE	10/14/2003	20,000,000.00	20,000,000.00	20,087,500.00	2.040	2.012	2.040	10/14/2005	561
3133X2KQ7	12408	FHLB CALLABLE	12/18/2003	18,200,000.00	18,200,000.00	18,228,437.50	2.000	1.973	2.000	09/16/2005	533
3133X35F6	12482	FHLB CALLABLE	01/14/2004	25,000,000.00	25,000,000.00	25,062,500.00	2.050	2.022	2.050	10/14/2005	561
3133X37H0	12489	FHLB CALLABLE	01/20/2004	5,000,000.00	5,000,000.00	5,010,937.50	2.350	2.317	2.350	01/20/2006	659
3133X3B28	12506	FHLB CALLABLE	01/28/2004	24,769,083.44	24,780,000.00	24,805,493.75	2.070	2.086	2.125	10/28/2005	575
3133X3P31	12519	FHLB CALLABLE	02/03/2004	12,299,094.04	12,300,000.00	12,302,220.83	1.300	1.310	1.328	02/23/2005	328
3133X3US0	12524	FHLB CALLABLE	02/05/2004	20,000,000.00	20,000,000.00	20,012,500.00	1.470	1.450	1.470	02/26/2005	338
3133X3LG6	12534	FHLB CALLABLE	02/12/2004	20,000,000.00	20,000,000.00	20,025,000.00	1.640	1.617	1.640	08/12/2005	498
3133X3TS2	12555	FHLB CALLABLE	02/26/2004	10,000,000.00	10,000,000.00	10,025,000.00	1.840	1.814	1.840	08/26/2005	512
31339YU63	12581	FHLB CALLABLE	03/15/2004	10,034,800.00	10,000,000.00	10,037,925.00	2.160	2.129	2.159	07/17/2006	837
3133X4LN9	12588	FHLB CALLABLE	03/17/2004	10,000,000.00	10,000,000.00	10,012,500.00	1.500	1.479	1.500	03/17/2006	715
3133X5RL4	12621	FHLB CALLABLE	03/30/2004	10,000,000.00	10,000,000.00	9,999,750.00	1.350	1.331	1.350	06/30/2005	455
3133X4TQ40	12622	FHLB CALLABLE	03/30/2004	10,000,000.00	10,000,000.00	10,028,125.00	1.875	1.849	1.875	12/30/2005	638
3134A4LX0	11233	FHLMC NOTES	10/02/2002	50,348,183.49	50,000,000.00	50,656,250.00	3.250	2.070	2.099	11/15/2004	228
3134A4LX0	11242	FHLMC NOTES	10/08/2002	25,172,438.57	25,000,000.00	25,328,125.00	3.250	2.081	2.110	11/15/2004	228
3133MYZ67	11870	FHLMC NOTES	06/06/2003	50,000,000.00	50,000,000.00	50,015,825.00	1.350	1.331	1.350	12/08/2004	261
3134A4LX0	12402	FHLMC NOTES	12/15/2003	50,736,483.34	50,000,000.00	50,791,666.67	3.250	1.281	1.299	11/15/2004	228

Portfolio SCLC

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**County of Santa Clara
Fund C - COMMINGLED FUNDS
Investments
March 31, 2004**

SANTA CLARA COUNTY
70 WEST HEDDING
EAST WING 6TH FL
SAN JOSE, CA 95110

05/10/2004 MON 11:21 FAX 4082889237

COUNTY OF SANTA CLARA

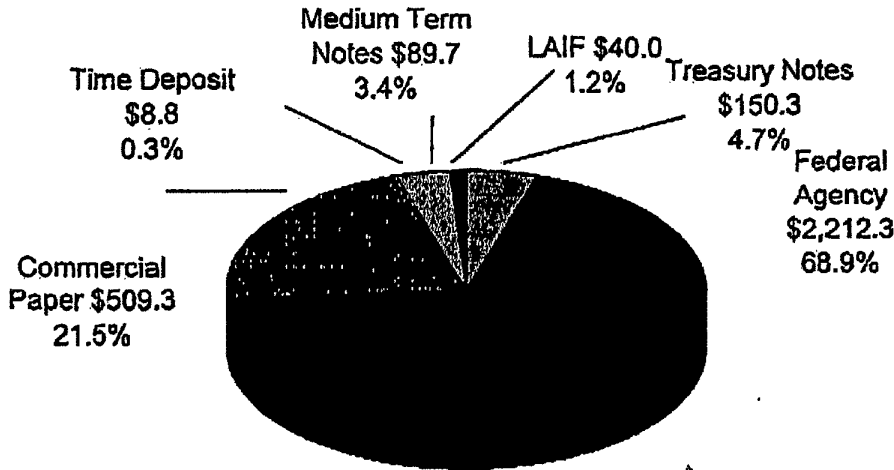
CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Local Agency Investment Funds											
	8506	LOCAL AGENCY INVEST FUND	07/01/2003	40,000,000.00	40,000,000.00	40,000,000.00	1.470	1.449	1.470		1
		Subtotal and Average		40,000,000.00	40,000,000.00	40,000,000.00		1.450	1.470		1
Medium Term Notes											
172967BA8	12217	CITIGROUP	10/10/2003	10,767,470.82	10,000,000.00	10,814,100.85	6.750	1.992	2.019	12/01/2005	609
36962GA46	11901	GENERAL ELECTRIC	06/20/2003	17,859,734.36	17,500,000.00	17,820,869.56	2.850	1.677	1.700	01/30/2006	669
36962GD84	12065	GENERAL ELECTRIC	08/21/2003	10,000,000.00	10,000,000.00	10,095,520.02	2.240	2.209	2.240	05/19/2005	505
36982GA48	12228	GENERAL ELECTRIC	10/17/2003	10,115,224.91	10,000,000.00	10,169,239.75	2.850	2.170	2.200	01/30/2006	669
589331AJ8	12532	MERCK & CO	02/11/2004	9,976,586.03	10,000,000.00	10,083,529.66	2.500	2.549	2.585	09/30/2007	1,093
89233PMX1	10319	TOYOTA MOTOR CREDIT	07/16/2001	10,000,398.81	10,000,000.00	10,109,150.70	5.030	4.948	5.015	07/16/2004	106
89233PRP3	12480	TOYOTA MOTOR CREDIT	01/13/2004	9,996,098.83	10,000,000.00	10,146,770.14	2.700	2.677	2.714	01/30/2007	1,034
90331KHW6	12300	U S BANK	11/12/2003	19,998,431.02	20,000,000.00	20,474,880.88	2.850	2.814	2.853	11/15/2006	958
949748GD1	12237	WELLS FARGO BANK	10/21/2003	10,673,874.19	10,000,000.00	10,808,799.74	5.900	2.584	2.619	05/21/2006	780
		Subtotal and Average		109,366,817.87	107,500,000.00	110,538,861.20		2.568	2.604		732
Federal Agency Issues - Coupon											
31331Q5M5	12004	FED FARM CREDIT	07/28/2003	24,975,393.75	25,000,000.00	25,093,750.00	2.125	2.139	2.168	07/28/2006	848
31331TDB4	12099	FED FARM CREDIT	09/03/2003	6,000,000.00	6,000,000.00	6,097,500.00	2.600	2.564	2.600	03/03/2006	701
31331TOX6	12136	FED FARM CREDIT	09/12/2003	20,000,000.00	20,000,000.00	20,206,250.00	2.250	2.219	2.250	09/12/2005	529
31331TEY3	12209	FED FARM CREDIT	10/08/2003	20,002,838.02	20,000,000.00	20,062,500.00	1.760	1.726	1.750	09/22/2005	539
31331TLC3	12333	FED FARM CREDIT	11/24/2003	19,993,527.78	20,000,000.00	20,012,500.00	1.250	1.282	1.300	11/24/2004	237
31331QN86	11879	FARM CREDIT CALLABLE	06/11/2003	10,000,000.00	10,000,000.00	10,012,500.00	2.300	2.268	2.300	12/11/2006	984
31331QT72	11887	FARM CREDIT CALLABLE	06/16/2003	21,565,000.00	21,565,000.00	21,551,521.88	1.880	1.854	1.880	06/16/2006	806
31331TGE5	12252	FARM CREDIT CALLABLE	10/27/2003	25,000,000.00	25,000,000.00	25,179,687.50	2.660	2.623	2.660	10/27/2008	939
31331TKT7	12339	FARM CREDIT CALLABLE	11/25/2003	20,000,000.00	20,000,000.00	20,031,250.00	2.250	2.219	2.250	11/25/2005	603
31331TKV2	12352	FARM CREDIT CALLABLE	12/01/2003	20,000,000.00	20,000,000.00	20,137,500.00	2.200	2.168	2.200	12/01/2005	609
31331TLK5	12353	FARM CREDIT CALLABLE	12/02/2003	10,000,000.00	10,000,000.00	10,056,250.00	2.080	2.051	2.080	12/02/2005	610
31331QQ91	12357	FARM CREDIT CALLABLE	12/03/2003	9,955,455.60	10,000,000.00	10,000,000.00	1.625	1.972	2.000	06/17/2005	442
31331TMP3	12403	FARM CREDIT CALLABLE	12/15/2003	10,000,000.00	10,000,000.00	10,071,875.00	2.200	2.169	2.200	12/15/2005	623
31331TME8	12449	FARM CREDIT CALLABLE	12/29/2003	50,000,000.00	50,000,000.00	50,531,250.00	2.600	2.564	2.600	03/29/2006	727
31331TPV7	12504	FARM CREDIT CALLABLE	01/27/2004	50,000,000.00	50,000,000.00	50,421,875.00	2.250	2.219	2.250	01/26/2008	665

Portfolio SCLC

SANTA CLARA COUNTY TREASURY-COMMINGLED POOL
INVESTMENT CONCENTRATION AND MATURITY DISTRIBUTION

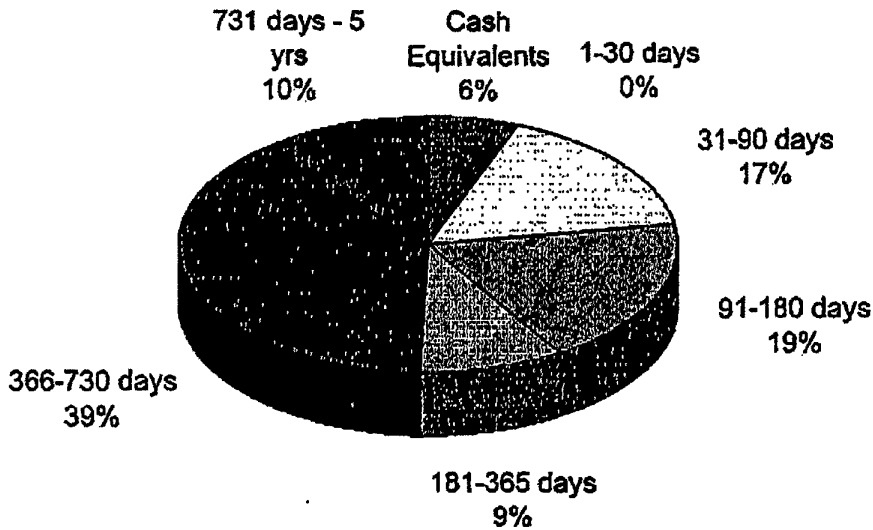
as of March 31, 2004

SECURITIES BY TYPE*



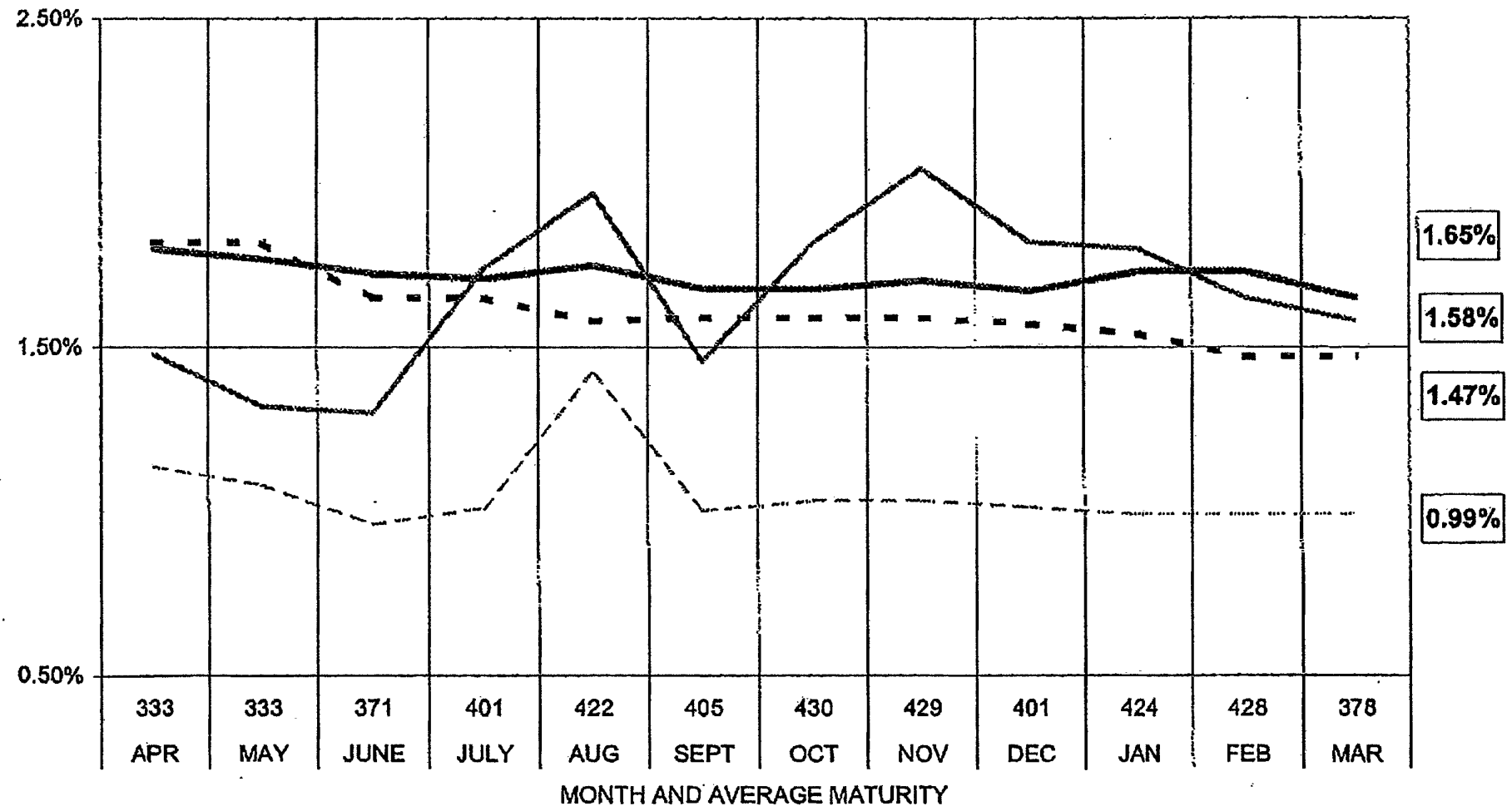
*Amounts are in millions (000)

SECURITIES BY MATURITY



PORTFOLIO HISTORY 2003-2004

CO POOL LAIF 2 YEAR TREAS 6 MONTH BILL



MONTH AND AVERAGE MATURITY

SANTA CLARA COUNTY TREASURY COMMINGLED POOL
CURRENT INVESTMENT STRATEGY, MATURITY AND YIELDS

With the exception of a dip in March, the yield on the 2-year Treasury note stayed in the 1.60 % to 2% range as was expected. Yields did appear to bottom out in June of 2003 at a very low 1.08%. This information was part of our last report of December 30, 2003. However, the jobs report on Friday April 2 started a major increase in yields with the 2-year Treasury Note going from 1.57% to 1.85% in two days. The increase in longer rates has been even more dramatic. Fortunately, this increase comes just as we are receiving the major portion of the property tax receipts and should help maintain the yield of the pool. As discussed in the prior report, the average life of the pool has been reduced in anticipation that rates will move higher late in 2004 or early 2005. With Fed Funds anchored at 1%, this hurts the pools earnings since cash flow requires that a significant portion of new funds be placed in securities maturing in less than one year where the yields are 1.00% to 1.30%. The yield of the pool has changed very little over the past quarter and performed better than some of the benchmark funds such as LAIF. This information is summarized in the box below.

It is still expected that if the economy continues to show growth, particularly with an increase in jobs, the Feds will increase rates sometime in late 2004 or early 2005. Until that time, the mix of investments exceeding one year and short-term investments should keep the pools yield at about 1.55 % for the next quarter. This could be increased if longer-term securities were purchased, however, considering that most people believe that interest rates will definitely increase in the not too distant future, some as soon as August, extending the duration of the portfolio does not seem appropriate at this time.

Commingled Pool as of March 31, 2004

	Mar	Feb	Jan	Dec	Nov	Oct
Average Days to Maturity	378	428	424	401	429	430
County Average Yield	1.65	1.73	1.72	1.67	1.70	1.68
LAIF Average Yield	1.47	1.47	1.54	1.57	1.59	1.59

TO: SANTA CLARA COUNTY SCHOOL DISTRICTS AND SPECIAL PURPOSE DISTRICTS

April 16, 2004

Page 2

The yield of the pool on March 31, 2004 was 1.65%. As a comparison, on March 31, 2004 the yield of a 90-day Treasury Bill was 0.92% and a 6-month Treasury Bill was 0.99%. A two-year Treasury Note was 1.58%. The State of California Local Agency Investment Fund (LAIF) yield was 1.47%.

Attached with the current investment strategy is a schedule that lists the average maturities and yield for the commingled funds over the past six months. A chart of investment concentration and maturity is provided for the Treasury Pool. Also included is a chart showing the one-year history of the pool and selected interest rates.

Securities are purchased with the expectation that they will be held to maturity, so unrealized gains or losses are not reflected in the yield calculations.

The market values of securities were taken from the Wall Street Journal, quote screens, an independent pricing service or based on current treasury spreads.

The investment portfolio is in compliance with the current investment policy. A combination of securities maturing, new revenues and tax receipts will adequately cover the anticipated cash flow needs for the next six months. Cash flows are continually monitored and are considered paramount in the selection of maturity dates of securities.

If any Board member would like further information on this report, please let me know.

Attachments

County of Santa Clara

Finance Agency
 Controller-Treasurer Department
 County Government Center
 100 West Hedding Street, East Wing, 2nd Floor
 San Jose, California 95110-1705
 (408) 299-5200 FAX (408) 289-8629




April 16, 2004

Prepared by: Herb Wiley
 Herb Wiley Investment Officer

Reviewed by: David G. Elledge
 David G. Elledge Controller-Treasurer

TO: BOARD OF TRUSTEES, SANTA CLARA COUNTY SCHOOL DISTRICTS
 BOARDS OF DIRECTORS, SANTA CLARA COUNTY SPECIAL PURPOSE DISTRICTS

FROM: JOHN V. GUTHRIE, DIRECTOR OF FINANCE 

SUBJECT: SANTA CLARA COUNTY TREASURY INVESTMENT PORTFOLIO STATUS

RECOMMENDATION

Receive and file the March 31, 2004 Detailed Investment Portfolio Listing.

DISCUSSION

In compliance with the State of California Government Code as amended by Chapters 783 and 784, Statutes of 1995 and in compliance with County Policy, the Santa Clara County Treasury Investment Portfolio Report as of March 31, 2004 submitted for your review and acceptance.

The attached detailed investment reports list each investment of the County Treasury Pool as well as individual reports for specific investment funds each school district or special district has in the County Treasury. The reports include the respective purchase and maturity dates, par value, amortized cost, present value, and effective yield for each investment.

A summary of market value versus cost is provided below for "Commingled Investments of the County Pool.

	Cost	Market Value	Increase (Decrease)	Percent
Commingled Investments	\$3,213,050,548	\$3,224,169,673	\$11,119,125	0.345%

Construction Activity

The following table summarizes historical residential building permit valuation for the County.

SANTA CLARA COUNTY
Residential Building Permit Valuation
(Dollars in Thousands)

<u>Year^(a)</u>	<u>Units^(b)</u>	<u>Valuation^(c)</u>
1999	6,880	\$ 993,444
2000	6,620	932,374
2001	5,964	765,544
2002	4,477	729,579
2003	7,006	1,055,261

^(a) As of January 1.

^(b) Does not include alterations and additions.

^(c) Includes all residential building activity.

Source: "California Building Permit Activity," Economic Sciences Corporation.

Commercial Activity

The following table summarizes historical taxable transactions in the County.

SANTA CLARA COUNTY
Taxable Transactions
(Dollars in Thousands)

<u>Year</u>	<u>Outlets</u>	<u>Taxable Transactions</u>
1998	49,530	\$27,488,815
1999	49,111	30,348,644
2000	48,162	37,303,662
2001	47,175	32,133,247
2002	47,580	27,453,942

Source: State Board of Equalization.

Major Employers

The following table summarizes the major employers in the County.

SANTA CLARA COUNTY Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Hewlett Packard	Manufactures personal & industrial computer systems	11,425
Apple Computer Inc.	Develops, manufactures & licenses computer products & technology for business, education, consumer, science, engineering & government industries	10,000
Cisco Systems Inc.	Manufactures, develops & supports high performance, multi protocol Internetworking systems that link LAN & WAN networks	9,400
Lockheed Martin Corp.	Systems integrators; DOD contractor	9,001
Diallogic (Intel Corp)	Manufactures semiconductor devices, microcomputer chips, chipsets, motherboards & flash memory	8,000
IBM	Manufactures & repairs electronic data processing systems	8,000
Solectron	Provides customized manufacturing services to electronics OEMs; pre-manufacturing, manufacturing & post manufacturing services	7,300
Agilent Technologies	Analytical & medical instruments; test & measurement equipment, electronic components	7,025
Stanford Hospital & Clinics	Hospital & clinic facilities	6,800
Cadence Design Systems Inc.	Integrated software design & packaging services	4,200
KLA-Tencor Corp.	Manufactures semiconductor inspection & measurement equipment	3,500
Santa Clara Valley Health/Hospital	Medical & surgical hospital and trauma center	3,500
Sun Microsystems Inc.	Manufactures computer workstations, services & hardware & software	3,500
Veterans Health Administration	General medical & surgical hospital services	3,500
Advanced Micro Devices Inc.	Manufactures integrated circuits; produces microprocessors & related peripherals, memories & programmable logic devices for telecommunications & networking	3,100
Veritas Software Corp.	Provides data management, protection & availability software	3,100
Sanmina Corp.	Manufactures custom printed circuit boards	3,048
Santa Teresa Community Hospital	Medical & surgical hospital	3,000
Space Systems Loral Inc.	Designs & manufactures communications & meteorological satellites	3,000
Safeway	Retail grocery supermarket	2,955
Kaiser Medical Center	Physicians' offices & HMO medical center	2,800
Philips Semiconductors	Manufactures integrated circuits & discrete semiconductors	2,750
East Side Union High School District	Public school district	2,666
EBay Inc.	E-commercial personal auction services	2,500
Nortel Networks	Manufactures & develops a comprehensive line of data networking products	2,500
San Jose Mercury News Inc.	Publishes daily newspaper	2,500
Sony Electronics	Manufactures computers & peripheral products	2,500

Source: 2003 Harris InfoSource, January 2004.

Employment

The following table summarizes historical employment and unemployment in the County.

SANTA CLARA COUNTY					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	936,300	980,800	952,400	863,300	821,100
Unemployment	<u>29,200</u>	<u>19,800</u>	<u>45,500</u>	<u>79,800</u>	<u>73,500</u>
Total	965,500	1,000,600	997,900	943,100	594,600
Unemployment Rate ^(b)	3.0%	2.0%	4.6%	8.5%	8.2%

^(a) Based on place of residence, March 2003 benchmark.
^(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division.

The following table summarizes the historical numbers of workers in the County by industry.

SANTA CLARA COUNTY					
Estimated Number of Wage and Salary Workers by Industry^(a)					
(in thousands)					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Agricultural	5,300	6,000	4,600	4,500	4,200
Natural Resources and Mining	200	200	200	200	200
Construction	44,600	47,400	47,800	42,300	38,800
Manufacturing	234,900	251,700	240,600	201,200	177,000
Trade, Transportation and Utilities	146,200	150,400	145,200	134,300	128,600
Information	32,500	42,700	41,900	34,200	31,000
Financial Activities	34,200	34,000	35,200	35,000	34,800
Professional and Business Services	207,100	225,800	210,000	173,200	164,300
Educational and Health Services	85,500	85,200	89,800	91,100	92,700
Leisure and Hospitality	68,600	71,400	72,000	67,400	67,500
Other Services	26,100	26,700	26,300	25,900	24,700
Government	<u>91,400</u>	<u>94,500</u>	<u>94,600</u>	<u>98,100</u>	<u>94,800</u>
Total All Industries	<u>976,600</u>	<u>1,035,000</u>	<u>1,008,100</u>	<u>907,300</u>	<u>858,400</u>

^(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are *not* comparable to the data based on the Standard Industrial Classification (SIC). Items may not add to totals due to independent rounding. March 2003 Benchmark.

Source: California Employment Development Department, Labor Market Information Division.

SANTA CLARA COUNTY ECONOMIC PROFILE

Introduction

Santa Clara County (the "County") is located below the southern point of San Francisco Bay and covers a total land area of over 1,300 square miles, or about 847,000 acres. The valley floor of the County, which extends outward from the Bay in a southeasterly direction, is shaped by the Santa Cruz Mountains on the west and the Diablo Range on the east. Actually, two distinct valleys are formed where the hills narrow at the town of Coyote, located approximately in the center of the County. This natural division defines the two areas known locally as North County and South County.

Land use patterns are as distinct as the two valleys. Although land development is ongoing, South County has retained more of the agricultural base which once existed throughout the area. In complete contrast, North County is densely populated, extensively urbanized and subdivided, and heavily industrialized. It contains thirteen cities, each one adjacent to another, while South County has two cities, separated by roughly 20 miles. The uppermost western portion of North County, with its concentration of high-technology, electronics-oriented industry, is often referred to as the "Silicon Valley." It derives this name from the base material used to manufacture semiconductors, which were first developed here.

Population

The following table summarizes population figures for the County:

SANTA CLARA COUNTY Population	
<u>Year</u>	<u>Santa Clara County</u>
2000	1,682,585
2001	1,704,500
2002	1,716,100
2003	1,719,500
2004	1,731,400

Source: Adjusted January 1 estimates provided by the State Department of Finance California.

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APPENDIX E
SANTA CLARA COUNTY

SAN MATEO COUNTY TREASURER'S OFFICE
 PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
 April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value +Accrued Interest	Pct Assets
			762,000,000		760,354,133.61		760,229,104.10	4,650,463.19	764,879,567.30	30.78
UNITED STATES TREASURIES										
UNITED STATES TREAS NTS 2.125 % Due 10-31-04			25,000,000	100.69	25,171,875.00	100.44	25,109,375.00	0.00	25,109,375.00	1.02
UNITED STATES TREAS NTS 3.500 % Due 11-15-06			100,000,000	99.91	99,906,250.00	102.09	102,093,750.00	1,605,769.23	103,699,519.23	4.13
UNITED STATES TREAS NTS 5.625 % Due 05-15-08			5,000,000	108.08	5,403,906.25	108.66	5,432,812.50	129,035.03	5,561,847.53	0.22
UNITED STATES TREAS NTS 2.625 % Due 05-15-08			200,000,000	101.24	202,488,281.25	97.41	194,812,500.00	2,408,653.85	197,221,153.85	7.89
UNITED STATES TREAS NTS 3.125 % Due 09-15-08			50,000,000	100.99	50,496,093.75	98.66	49,328,125.00	0.00	49,328,125.00	2.00
UNITED STATES TREAS NTS 2.625 % Due 03-15-09			50,000,000	99.78	49,889,775.82	95.69	47,843,750.00	164,062.50	48,007,812.50	1.94
UNITED STATES TREAS NTS 3.125 % Due 04-15-09			50,000,000	98.21	49,106,642.76	97.81	48,906,250.00	64,036.89	48,970,286.89	1.98
			<u>480,000,000</u>		<u>482,462,824.83</u>		<u>473,526,562.50</u>	<u>4,371,557.49</u>	<u>477,898,119.99</u>	<u>19.17</u>
TOTAL PORTFOLIO										

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***TOTAL COST DOES NOT REFLECT AMORTIZATIONS OR ACCRETIONS BUT INCLUDES PURCHASED ACCRUED INTEREST. MARKET PRICES ARE DOWNLOADED THROUGH (IDC) INTERACTIVE DATA CORP.

SAN MATEO COUNTY TREASURER'S OFFICE
 PORTFOLIO APPRAISAL
 SAN MATEO COUNTY POOL
 April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	Pct Assets
ASSOCIATION										
2.250 % Due 02-28-06 FEDERAL FARM CREDIT BANK			10,000,000	99.78	9,977,800.00	100.25	10,025,000.00	31,250.00	10,056,250.00	0.41
2.500 % Due 03-15-06 FEDERAL HOME LOAN BANK			20,000,000	99.78	19,955,200.00	100.25	20,050,000.00	62,500.00	20,112,500.00	0.81
INTERNATIONAL BANK RECON & DEVELOPMENT			10,000,000	99.93	9,992,600.00	105.00	10,500,000.00	44,444.44	10,544,444.44	0.43
5.000 % Due 03-28-06 FEDERAL NATIONAL MORTGAGE ASSOCIATION			20,000,000	99.94	19,988,200.00	99.37	19,875,000.00	206,250.00	20,081,250.00	0.80
2.250 % Due 05-15-06 FEDERAL HOME LOAN BANK	06-30-04	100	5,000,000	100.00	5,000,000.00	98.84	4,942,187.50	33,833.33	4,976,020.83	0.20
2.000 % Due 06-30-06 FEDERAL HOME LOAN MORTGAGE CORPORATION	06-30-04	100	10,000,000	100.00	10,000,000.00	100.01	10,001,190.19	87,500.00	10,088,690.19	0.40
2.625 % Due 06-30-06 FEDERAL FARM CREDIT BANK			5,000,000	99.81	4,990,450.00	98.94	4,946,875.00	30,399.31	4,977,274.31	0.20
2.125 % Due 07-17-06 FEDERAL HOME LOAN BANK	04-13-05	100	10,000,000	100.00	10,000,000.00	98.37	9,837,500.00	9,916.67	9,847,416.67	0.40
2.100 % Due 10-13-06 FEDERAL HOME LOAN MORTGAGE CORPORATION	11-03-04	100	20,000,000	99.97	19,994,800.00	99.66	19,931,250.00	282,708.33	20,213,958.33	0.81
2.875 % Due 11-03-06 FEDERAL FARM CREDIT BANK	11-24-04	100	10,000,000	100.00	10,000,000.00	99.50	9,950,000.00	117,000.00	10,067,000.00	0.40
2.700 % Due 11-24-06 FEDERAL NATIONAL MORTGAGE ASSOCIATION-SUB NOTE			20,000,000	99.71	19,942,000.00	104.22	20,843,750.00	311,388.89	21,155,138.89	0.84
4.750 % Due 01-02-07 FEDERAL NATIONAL MORTGAGE ASSOCIATION			10,000,000	99.90	9,990,300.00	105.19	10,518,750.00	145,833.33	10,664,583.33	0.43
5.000 % Due 01-15-07 FEDERAL NATIONAL MORTGAGE ASSOCIATION	01-19-05	100	10,000,000	99.83	9,983,000.00	98.75	9,875,000.00	73,645.83	9,948,645.83	0.40
2.625 % Due 01-19-07 FEDERAL HOME LOAN MORTGAGE CORPORATION			15,000,000	99.99	14,997,900.00	99.19	14,878,125.00	0.00	14,878,125.00	0.60
2.875 % Due 05-15-07 FEDERAL HOME LOAN MORTGAGE CORPORATION	07-23-04	100	10,000,000	99.84	9,983,600.00	100.69	10,068,750.00	121,250.00	10,190,000.00	0.41
4.500 % Due 07-23-07 FEDERAL HOME LOAN MORTGAGE CORPORATION	09-13-04	100	10,000,000	99.62	9,962,500.00	100.94	10,093,750.00	52,222.22	10,145,972.22	0.41
4.000 % Due 09-13-07 FEDERAL NATIONAL MORTGAGE ASSOCIATION	01-28-05	100	10,000,000	99.80	9,979,900.00	98.94	9,893,750.00	89,444.44	9,983,194.44	0.40
3.500 % Due 01-28-08 FEDERAL HOME LOAN MORTGAGE	02-25-05	100	15,000,000	99.61	14,940,900.00	98.34	14,751,562.50	89,337.50	14,840,900.00	0.40

SAN MATEO COUNTY TREASURER'S OFFICE
 PORTFOLIO APPRAISAL
 SAN MATEO COUNTY POOL
 April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	Pct Assets
0.000 % Due 07-07-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			25,000,000	99.69	24,922,222.22	99.82	24,955,001.82	0.00	24,955,001.82	1.01
0.000 % Due 07-09-04 FEDERAL MORTGAGE CREDIT DISCOUNT NOTE			20,000,000	99.45	19,890,294.44	99.73	19,945,999.14	0.00	19,945,999.14	0.81
0.000 % Due 08-03-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION			5,000,000	100.88	5,044,050.00	101.53	5,076,562.50	67,708.33	5,144,270.83	0.21
6.500 % Due 08-15-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION			15,000,000	99.68	14,952,300.00	100.91	15,135,937.50	65,625.00	15,201,562.50	0.61
3.500 % Due 09-15-04 FEDERAL MORTGAGE CREDIT DISCOUNT NOTE			7,000,000	99.41	6,958,948.89	99.46	6,962,200.47	0.00	6,962,200.47	0.28
0.000 % Due 10-19-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION	07-28-04	100	40,000,000	100.00	40,000,000.00	99.91	39,962,500.00	139,022.22	40,101,522.22	1.62
1.360 % Due 02-15-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION			20,000,000	99.76	19,951,600.00	102.03	20,406,250.00	96,875.00	20,503,125.00	0.83
3.875 % Due 03-15-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION	07-07-04	100	10,000,000	100.00	10,000,000.00	99.72	9,971,875.00	8,944.44	9,980,819.44	0.40
1.400 % Due 05-03-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION	07-28-04	100	20,000,000	100.00	20,000,000.00	100.00	20,000,000.00	1,944.44	20,001,944.44	0.81
1.750 % Due 05-23-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION			5,000,000	99.49	4,974,600.00	104.37	5,218,750.00	107,812.50	5,326,562.50	0.21
5.750 % Due 06-15-05 FEDERAL HOME LOAN BANK	06-30-04	100	5,000,000	100.00	5,000,000.00	99.47	4,973,437.50	22,500.00	4,995,937.50	0.20
1.350 % Due 06-30-05 FEDERAL HOME LOAN BANK	06-09-04	100	5,000,000	100.00	5,000,000.00	99.66	4,982,812.50	12,041.67	4,994,854.17	0.20
1.700 % Due 09-09-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION			10,000,000	99.79	9,979,000.00	99.84	9,984,375.00	23,437.50	10,007,812.50	0.40
1.875 % Due 09-15-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION	11-01-04	100	10,000,000	100.00	10,000,000.00	100.75	10,075,000.00	149,166.67	10,224,166.67	0.41
3.000 % Due 11-01-05 FEDERAL HOME LOAN MORTGAGE CORPORATION			20,000,000	99.98	19,997,000.00	100.03	20,006,250.00	194,791.67	20,201,041.67	0.81
2.125 % Due 11-15-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION			10,000,000	99.62	9,961,800.00	105.97	10,596,875.00	225,000.00	10,821,875.00	0.43
6.000 % Due 12-15-05 FEDERAL NATIONAL MORTGAGE	02-28-05	100	15,000,000	100.00	15,000,000.00	99.72	14,957,812.50	58,125.00	15,015,937.50	0.61

SAN MATEO COUNTY TREASURER'S OFFICE
 PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
 April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	Pct Assets
3.375 % Due 02-15-08 WELLS FARGO COMPANY			15,000,000	99.89	14,984,100.00	99.23	14,884,980.01	37,916.67	14,922,896.68	0.60
3.500 % Due 04-04-08 JP MORGAN CHASE & CO			10,000,000	99.88	9,988,100.00	99.14	9,913,780.21	180,243.06	10,094,023.27	0.40
3.625 % Due 05-01-08 GILLETTE COMPANY			10,000,000	99.18	9,918,000.00	95.43	9,542,770.39	103,472.22	9,646,242.61	0.39
2.500 % Due 06-01-08 TOYOTA MOTOR CREDIT CORPORATION			7,000,000	99.48	6,963,460.00	96.79	6,775,159.61	49,753.47	6,824,913.08	0.27
2.875 % Due 08-01-08 LEHMAN BROTHERS HOLDINGS			5,000,000	99.56	4,978,050.00	98.19	4,909,390.26	40,347.22	4,949,737.48	0.20
3.500 % Due 08-07-08 WELLS FARGO COMPANY	08-15-05	100	10,000,000	100.00	10,000,000.00	97.00	9,699,719.24	65,000.00	9,764,719.24	0.39
3.120 % Due 08-15-08 WAL-MART STORES INC			10,000,000	99.62	9,962,200.00	97.93	9,793,119.81	27,187.50	9,820,307.31	0.40
3.375 % Due 10-01-08 MORGAN STANLEY DEAN WITTER			20,000,000	99.71	19,941,400.00	98.55	19,709,341.44	226,041.67	19,935,383.11	0.80
3.875 % Due 01-15-09 JP MORGAN CHASE & CO			5,000,000	99.40	4,970,200.00	96.73	4,836,389.92	21,875.00	4,858,264.92	0.20
3.500 % Due 03-15-09 GENERAL ELECTRIC CAPITAL CORPORATION			20,000,000	99.84	19,968,800.00	95.87	19,174,920.66	50,347.22	19,225,267.88	0.78
3.125 % Due 04-01-09 WELLS FARGO & COMPANY			20,000,000	99.84	19,968,600.00	95.54	19,107,101.44	50,347.22	19,157,448.66	0.77
3.125 % Due 04-01-09			<u>446,000,000</u>		<u>446,449,160.00</u>		<u>450,620,104.67</u>	<u>4,687,907.64</u>	<u>455,308,012.31</u>	<u>18.25</u>
FEDERAL AGENCY - FLOATING RATE SECURITIES										
FEDERAL HOME LOAN MORTGAGE CORPORATION - FLOATER			10,000,000	100.00	10,000,000.00	100.01	10,000,759.89	16,538.89	10,017,298.78	0.40
1.145 % Due 09-09-05 FEDERAL NATIONAL MORTGAGE ASSOCIATION-FLOATER	05-24-04	100	5,000,000	100.00	5,000,000.00	99.99	4,999,749.75	12,558.33	5,012,308.09	0.20
1.370 % Due 02-24-06 FEDERAL NATIONAL MORTGAGE ASSOCIATION FLOATER			5,000,000	100.00	5,000,000.00	99.03	4,951,300.05	5,416.67	4,956,716.72	0.20
3.000 % Due 02-17-09			<u>20,000,000</u>		<u>20,000,000.00</u>		<u>19,951,809.70</u>	<u>34,513.89</u>	<u>19,986,323.58</u>	<u>0.81</u>
FEDERAL AGENCY SECURITIES										
FEDERAL NATIONAL MORTGAGE ASSOCIATION			10,000,000	99.80	9,980,400.00	100.22	10,021,875.00	112,500.00	10,134,375.00	0.41
3.000 % Due 06-15-04 FREDDIE DISCOUNT			20,000,000	99.63	19,925,038.89	99.87	19,973,999.02	0.00	19,973,999.02	0.81
0.000 % Due 06-21-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			75,000,000	99.60	74,698,125.00	99.84	74,879,997.22	0.00	74,879,997.22	3.03
0.000 % Due 07-01-04 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			20,000,000	99.76	19,952,166.67	99.82	19,964,001.46	0.00	19,964,001.46	0.81

SAN MATEO COUNTY TREASURER'S OFFICE

PORTFOLIO APPRAISAL

SAN MATEO COUNTY POOL

April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	Pct Assets
GENERAL ELECTRIC CAPITAL CORPORATION 4.250 % Due 01-28-05			10,000,000	99.77	9,977,100.00	101.93	10,193,179.32	108,611.11	10,301,790.43	0.41
COLGATE-PALMOLIVE CO 3.980 % Due 04-29-05			10,000,000	99.80	9,980,000.00	102.14	10,213,810.73	1,105.56	10,214,916.29	0.41
MORGAN STANLEY DEAN WITTER 7.750 % Due 06-15-05			10,000,000	108.22	10,822,000.00	106.29	10,628,669.74	290,625.00	10,919,294.74	0.43
INTERNATIONAL BUSINESS MACHINE CORPORATION 4.125 % Due 06-30-05			5,000,000	98.44	4,922,100.00	102.64	5,132,150.27	68,750.00	5,200,900.27	0.21
ASSOCIATES CORPORATION NA 6.000 % Due 07-15-05			4,000,000	100.97	4,038,720.00	104.58	4,183,272.10	70,000.00	4,253,272.10	0.17
WELLS FARGO & COMPANY 4.800 % Due 07-29-05			25,000,000	100.28	25,070,650.00	103.50	25,874,626.15	303,333.33	26,177,959.48	1.05
WELLS FARGO BANK NA STEP-UP 1.500 % Due 01-02-06	07-02-04	100	10,000,000	100.00	10,000,000.00	99.35	9,934,899.90	49,166.67	9,984,066.57	0.40
GENERAL ELECTRIC CREDIT CORPORATION 2.850 % Due 01-30-06			20,000,000	100.53	20,105,300.00	100.68	20,135,778.80	142,500.00	20,278,278.80	0.82
MORGAN STANLEY DEAN WITTER 6.100 % Due 04-15-06			10,000,000	100.03	10,003,050.00	106.57	10,657,420.35	25,416.67	10,682,837.02	0.43
LEHMAN BROTHERS HOLDINGS 6.250 % Due 05-15-06			10,000,000	100.02	10,002,200.00	106.90	10,689,990.23	286,458.33	10,976,448.56	0.43
ABBOTT LABORATORIES 5.625 % Due 07-01-06			10,000,000	99.67	9,967,100.00	106.20	10,620,190.43	185,937.50	10,806,127.93	0.43
WAL-MART STORES 5.450 % Due 08-01-06			5,000,000	99.81	4,990,700.00	105.78	5,289,089.96	67,368.06	5,356,458.02	0.21
GENERAL ELECTRIC CAPITAL CORPORATION 2.750 % Due 09-25-06			10,000,000	99.88	9,987,800.00	100.02	10,001,870.73	26,736.11	10,028,606.84	0.40
US BANK NA 2.850 % Due 11-15-06			10,000,000	99.99	9,999,100.00	100.57	10,057,130.43	130,625.00	10,187,755.43	0.41
JP MORGAN CHASE & CO 3.125 % Due 12-11-06			10,000,000	99.95	9,994,600.00	100.27	10,026,800.54	120,659.72	10,147,460.26	0.41
GENERAL ELECTRIC CAPITAL CORPORATION 5.000 % Due 02-15-07			15,000,000	99.82	14,973,150.00	104.94	15,741,329.95	156,250.00	15,897,579.95	0.64
JP MORGAN CHASE & CO 5.350 % Due 03-01-07			10,000,000	99.88	9,988,000.00	105.75	10,575,230.41	87,680.56	10,662,910.97	0.43
MORGAN STANLEY DEAN WITTER 5.800 % Due 04-01-07			10,000,000	99.70	9,969,780.00	106.82	10,681,640.63	46,722.22	10,728,362.85	0.43
GENERAL ELECTRIC CAPITAL CORPORATION 5.000 % Due 06-15-07			10,000,000	99.49	9,948,600.00	104.86	10,485,780.33	187,500.00	10,673,280.33	0.42
WAL-MART STORES 4.375 % Due 07-12-07			15,000,000	99.66	14,948,700.00	103.24	15,486,643.98	196,875.00	15,683,518.98	0.63
CHEVRON TEXACO CAPITAL CO 3.500 % Due 09-17-07			10,000,000	99.55	9,955,300.00	100.89	10,088,870.24	41,805.56	10,130,675.80	0.41
GILLETTE COMPANY 3.500 % Due 10-15-07	10-15-04	100	10,000,000	99.83	9,982,900.00	100.46	10,046,040.34	14,583.33	10,060,623.67	0.41
EI DUPONT DE NEMOURS 3.375 % Due 11-15-07			10,000,000	99.55	9,954,800.00	100.14	10,013,780.21	154,687.50	10,168,467.71	0.41
CHEVRON TEXACO CAPITAL CO			10,000,000	99.92	9,991,700.00	99.61	9,960,639.95	70,312.50	10,030,952.45	0.40

SAN MATEO COUNTY TREASURER'S OFFICE
 PORTFOLIO APPRAISAL
 SAN MATEO COUNTY POOL
 April 30, 2004

Security	Call Date	Call Price	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value +Accrued Interest	Pct Assets
LOCAL AGENCY INVESTMENT FUND										
LAIF 1.470 % Due 05-31-04			37,000,000	100.00	37,000,000.00	100.00	37,000,000.00	43,814.17	37,043,814.17	1.50
CERTIFICATE OF DEPOSIT										
DEUTSCHE BANK AG 1.050 % Due 06-15-04			20,000,000	100.00	20,000,000.00	100.00	20,000,000.00	50,166.67	20,050,166.67	0.81
WELLS FARGO COMPANY 1.020 % Due 07-01-04			25,000,000	100.00	25,000,000.00	100.00	25,000,000.00	26,916.67	25,026,916.67	1.01
			<u>45,000,000</u>		<u>45,000,000.00</u>		<u>45,000,000.00</u>	<u>77,083.33</u>	<u>45,077,083.33</u>	<u>1.82</u>
REPURCHASE AGREEMENTS										
REPURCHASE AGREEMENT(U.S. TREAS NTS COLLAT) 0.920 % Due 05-03-04			173,750,000	100.00	173,750,000.00	100.00	173,750,000.00	0.00	173,750,000.00	7.04
COMMERCIAL PAPER										
WELLS FARGO & COMPANY 0.000 % Due 05-03-04			50,000,000	99.98	49,990,277.78	99.99	49,995,835.00	0.00	49,995,835.00	2.02
MORGAN STANLEY DEAN WITTER 0.000 % Due 05-05-04			67,000,000	99.97	66,982,915.00	99.99	66,990,506.10	0.00	66,990,506.10	2.71
GENERAL ELECTRIC CAPITAL CORPORATION 0.000 % Due 05-14-04			60,000,000	99.69	59,812,091.67	99.95	59,972,268.00	0.00	59,972,268.00	2.43
GENERAL ELECTRIC CAPITAL CORPORATION 0.000 % Due 05-21-04			3,000,000	99.66	2,989,850.00	99.93	2,997,987.60	0.00	2,997,987.60	0.12
GENERAL ELECTRIC CAPITAL CORPORATION 0.000 % Due 06-15-04			50,000,000	99.74	49,872,500.00	99.83	49,915,000.00	0.00	49,915,000.00	2.02
HARVARD UNIVERSITY 0.000 % Due 07-06-04			15,000,000	99.46	14,918,858.33	99.79	14,969,238.00	0.00	14,969,238.00	0.61
GENERAL ELECTRIC CAPITAL CORPORATION 0.000 % Due 07-09-04			12,000,000	99.74	11,968,470.56	99.80	11,975,499.60	0.00	11,975,499.60	0.48
			<u>257,000,000</u>		<u>256,534,963.34</u>		<u>256,816,334.30</u>	<u>0.00</u>	<u>256,816,334.30</u>	<u>10.40</u>
ASSET BACKED SECURITIES										
NISSAN AUTO LEASE TRUST 1.690 % Due 12-15-05			7,000,000	99.99	6,999,636.70	100.11	7,007,663.60	4,929.17	7,012,592.77	0.28
NISSAN AUTO RECEIVABLES OWNER TRUST 1.620 % Due 04-17-06			10,000,000	100.00	9,999,945.00	100.06	10,006,106.00	6,750.00	10,012,856.00	0.41
DAIMLER CHRYSLER AUTO TRUST 2.930 % Due 06-06-06			9,156,550	99.99	9,155,199.82	100.57	9,208,911.73	17,885.79	9,226,797.53	0.37
TOYOTA AUTO RECEIVABLES OWNER TRUST 3.760 % Due 06-15-06			5,609,294	100.00	5,609,224.00	100.90	5,659,751.28	8,787.89	5,668,539.18	0.23
NISSAN AUTO RECEIVABLES OWNER TRUST 2.600 % Due 08-15-06			6,831,298	99.99	6,830,939.92	100.59	6,871,535.03	7,400.57	6,878,935.60	0.28
HARLEY-DAVIDSON MOTORCYCLE TRUST 1.910 % Due 04-15-07			1,473,090	99.97	1,472,584.96	100.15	1,475,343.53	1,172.33	1,476,515.87	0.06
			<u>40,070,232</u>		<u>40,067,530.40</u>		<u>40,229,311.17</u>	<u>46,925.76</u>	<u>40,276,236.94</u>	<u>1.63</u>

SAN MATEO COUNTY TREASURER'S OFFICE
FIXED INCOME DISTRIBUTION - SETTLED TRADES
SAN MATEO COUNTY POOL
April 30, 2004

Summary Information

<u>Totals</u>		<u>Weighted Averages</u>	
Par Value	2,472,820,232	Average YTM	2.3
Market Value	2,484,048,007.27	Average Maturity (yrs)	2.1
Total Cost	2,473,583,062.18	Average Coupon (%)	2.353
Net Gain/Loss	10,464,945.09	Average Duration	1.9
Annual Income	57,893,396.14	Average Moody Rating	Aa1
Accrued Interest	14,437,936.03	Average S&P Rating	AA+
Number of Issues	137		

Distribution by Maturity

<u>Maturity</u>	<u>Number</u>	<u>Mkt Value</u>	<u>% Bond Holdings</u>	<u>Average Y T M</u>	<u>Average Coupon</u>	<u>Average Duration</u>
Under 1 Yr	36	950,975,833.54	38.3	1.2	1.085 %	0.2
1 Yr - 3 Yrs	57	750,270,119.69	30.2	2.2	3.048 %	1.9
3 Yrs - 5 Yrs	39	733,479,531.54	29.5	3.7	3.126 %	3.7
7 Yrs - 10 Yrs	5	49,322,522.51	2.0	5.2	4.912 %	7.1

Distribution by Coupon

<u>Coupon %</u>	<u>Number</u>	<u>Mkt Value</u>	<u>% Bond Holdings</u>	<u>Average Y T M</u>	<u>Average Coupon</u>	<u>Average Duration</u>
Under 1%	14	597,247,533.44	24.0	1.0	0.268 %	0.1
1% - 3%	56	986,500,156.20	39.7	2.3	2.057 %	2.2
3% - 5%	44	699,552,948.83	28.2	3.3	3.606 %	2.9
5% - 7%	22	189,828,074.07	7.6	3.0	5.611 %	2.4
7% - 10%	1	10,919,294.74	0.4	2.1	7.750 %	1.1

Distribution by Duration

<u>Duration</u>	<u>Number</u>	<u>Mkt Value</u>	<u>% Bond Holdings</u>	<u>Average Y T M</u>	<u>Average Coupon</u>	<u>Average Duration</u>
Under 1	38	1,010,284,777.98	40.7	1.3	1.188 %	0.3
1 - 3	60	791,714,224.55	31.9	2.3	3.136 %	2.0
3 - 5	34	632,726,482.23	25.5	3.6	3.048 %	3.9
5 - 7	2	20,692,013.89	0.8	5.3	5.705 %	6.4

Office of the County Treasurer



LEE BUFFINGTON
TAX COLLECTOR - TREASURER

COUNTY OF SAN MATEO

CHARLES M. TOVST
ASSISTANT TREASURER

555 COUNTY CENTER • REDWOOD CITY • CALIFORNIA 94063 TELEPHONE: (650) 363-4580

DATE: May 11, 2004
TO: San Mateo County Pool Participants
FROM: Lee Buffington, Tax Collector-Treasurer
SUBJECT: Monthly Investment Reports

Gross earnings for the month of April 30, 2004 were 2.62%. The current average maturity of the portfolio is 2.1 years with an average duration of 1.9 years. The portfolio continues to hold no derivative products.

San Mateo County Pool fulfills Government Code Section 53646; which states its ability to meet its expenditure requirements for the next six months.

I certify these reports are in compliance with the investment policy dated January 2004. If you have any questions regarding any of these reports, please call Charles Tovstein or myself at (650) 363 - 4580.

Lee Buffington
Tax Collector-Treasurer

Construction Activity

The following table summarizes historical residential building permit valuation for the County.

SAN MATEO COUNTY
Residential Building Permit Valuation
(Dollars in Thousands)

<u>Year^(a)</u>	<u>Units^(b)</u>	<u>Valuation^(c)</u>
1999	881	\$229,979
2000	1,797	324,461
2001	1,742	366,170
2002	1,532	334,728
2003	1,348	373,934

(a) As of January 1.

(b) Does not include alterations and additions.

(c) Includes all residential building activity.

Source: "California Building Permit Activity," Economic Sciences Corporation.

Commercial Activity

The following table summarizes historical taxable transactions in the County.

SAN MATEO COUNTY
Taxable Transactions
(S in Thousands)

<u>Year</u>	<u>Outlets</u>	<u>Taxable Transactions</u>
1998	\$21,774	\$11,035,003
1999	21,586	12,130,051
2000	21,173	14,044,016
2001	20,968	12,859,589
2002	21,101	11,614,809

Source: State Board of Equalization.

Major Employers

The following table summarizes the major employers in San Mateo County.

SAN MATEO COUNTY		
Major Employers		
<u>Employer</u>	<u>Product/Service</u>	<u>Number of Employees</u>
San Francisco International Airport	International airport	23,000
United Air Lines Inc.	Scheduled passenger transportation services	1,000
Oracle Corp.	Software & database publishing services	8,000
Applied Biosystems Group	Manufactures biotechnological & analytical instruments, biomass, reagents & chemicals	3,000
Genentech Inc.	Manufactures human pharmaceuticals produced by recombinant DNA technology for unmet medical needs	3,000
Raychem	Manufactures wiring, cable products & heat shrinkable tubing for transportation, aerospace & public utilities	3,000
IBM	Develops custom & prepackaged computer software & relational database products	2,800
Kaiser Foundation Hospitals	Acute care facility; medical & surgical hospital & clinic	2,800
Electronic Arts	Develops & publishes entertainment video & interactive computer games	2,500
Franklin Templeton Investments	Mutual funds, real estate investments & trust service	2,000
Mills-Peninsula Health Services	General medical & surgical hospital	1,885
Recovery Equity Investors LP	Manufactures integrated circuits	1,603
SRI International	Nonprofit research institute for technology research & development	1,500
Seton Medical Center	General medical & surgical hospital	1,259
Stanford Linear Accelerator	Academic & fundamental physics research	1,250
Siebel Systems Inc.	Develops & publishes client/server sales automation software	1,181
South San Francisco Unified School District	Public school district	1,143
Home Depot Inc.	Retail home improvement store	1,070
San Mateo County General Hospital	General medical & surgical hospital	1,000
Rudolph & Sletten Inc.	General contractors for commercial & industrial buildings	940
Ephiphany Inc.	Develops customized customer service software	856
Costco Wholesale	Warehouse membership club	820
Aeroground Inc.	Air cargo service, US Customs facility	800
Openwave Systems Inc.	Custom software developers for the cellular industries	800
Electronics for Imaging Inc.	Distributors of computer peripheral equipment; software development	758

Source: 2003 Harris InfoSource, January 2004.

The following table summarizes the historical numbers of workers by industry in the San Francisco Metropolitan Statistical Area, which includes San Mateo County.

SAN FRANCISCO MSA
Estimated Number of Wage and Salary Workers by Industry^(a)
(in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Agricultural	3,600	3,700	3,500	3,400	3,600
Natural Resources, Mining	300	200	0	200	200
Construction	42,900	45,600	47,600	45,200	43,600
Manufacturing	63,100	61,400	56,100	49,500	45,500
Trade, Transportation and Utilities	187,700	190,900	186,700	174,800	169,100
Information	48,500	63,300	60,000	50,700	47,000
Financial Activities	97,000	97,200	101,900	95,300	90,700
Professional and Business Services	223,700	241,900	219,200	188,400	177,700
Educational and Health Services	99,400	95,300	96,000	97,300	97,800
Leisure and Hospitality	111,700	114,800	115,700	113,600	112,300
Other Services	40,300	40,300	40,300	39,000	37,900
Government	<u>125,500</u>	<u>131,100</u>	<u>130,300</u>	<u>133,100</u>	<u>131,000</u>
Total All Industries	1,043,600	1,085,800	1,057,400	990,500	956,300

^(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are not comparable to the data based on the Standard Industrial Classification (SIC). Items may not add to totals due to independent rounding. March 2003 Benchmark.

Source: California Employment Development Department, Labor Market Information Division.

Employment

The following table summarizes historical employment and unemployment in San Mateo County.

SAN MATEO COUNTY					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	386,600	393,600	381,700	361,100	351,600
Unemployment	<u>7,700</u>	<u>6,500</u>	<u>11,500</u>	<u>19,000</u>	<u>18,800</u>
Total	<u>394,300</u>	<u>400,100</u>	<u>393,200</u>	<u>380,100</u>	<u>370,400</u>
Unemployment Rate ^(b)	2.0%	1.6%	2.9%	5.0%	5.1%

(a) Based on place of residence; March 2003 Benchmark.
 (b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division.

The following table summarizes historical employment and unemployment in the San Francisco Metropolitan Statistical Area, which includes San Mateo County.

SAN FRANCISCO METROPOLITAN STATISTICAL AREA					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	931,200	956,100	927,400	874,700	851,700
Unemployment	<u>23,200</u>	<u>20,900</u>	<u>37,600</u>	<u>55,000</u>	<u>51,300</u>
Total	<u>954,400</u>	<u>977,000</u>	<u>965,000</u>	<u>929,700</u>	<u>903,000</u>
Unemployment Rate ^(b)	2.4%	2.1%	3.9%	5.9%	5.7%

(a) Based on place of residence; March 2003 Benchmark.
 (b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division.

SAN MATEO COUNTY ECONOMIC PROFILE

Introduction

San Mateo County is located on a mountainous peninsula in Northern California. It is bordered on the west by the Pacific Ocean and on the east by the San Francisco Bay. The coastal mountain range bisects San Mateo County, limiting the western side to such rural uses as agriculture, game preserve, watershed, parks, and undeveloped lands. In addition, some restricted coastal developments, including the Cities of Daly City and Pacifica, are located on the west coast. In contrast, the eastern side of San Mateo County is densely-populated low land fronting San Francisco Bay, making up the middle of a continuous urban area stretching from San Jose (Santa Clara County) in the south to San Francisco in the north. The eastern half contains the major transportation arteries and facilities: U.S. Highway 101, Interstate 280, the San Mateo and Dumbarton bridges, San Francisco International Airport and the deepwater port of Redwood City. Many of San Mateo County's jobs were developed to support San Francisco's tourism, corporate headquarters and international trade, and the Silicon Valley electronics manufacturing area of Santa Clara County. Millions of people enter San Mateo County through San Francisco International Airport en route to these two destinations.

Population

The following table summarizes population figures for the City and for the County.

SAN MATEO COUNTY Population

<u>Year</u>	<u>San Mateo County</u>
2000	707,163
2001	709,100
2002	709,900
2003	709,200
2004	712,400

Source: Adjusted January 1 estimates provided by the State Department of Finance.

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APPENDIX D
SAN MATEO COUNTY

**ALAMEDA COUNTY
TREASURER'S OFFICE
COMPOSITION OF TREASURER'S CASH POOL
As of March 31, 2004**

The following summarizes the profile of the investment portfolio by category as of March 31, 2004 (see Attachment 1A for graphic illustration of Treasurer's investments by category):

	Book Value Cost	Market Value	% Held	% Allowed Sec 5360
LAIF	\$40,000,000	\$40,146,634	1.99%	N.A.
Bankers Acceptance	29,832,703	29,841,932 (1)	1.49%	N.A.
Collateralized Time Deposits	50,600,000	50,658,160	2.52%	no limit
Negotiable Certificates of Deposits	220,000,000	220,351,260	10.96%	30%
Commercial Paper	150,695,945	150,855,107 (1)	7.52%	up to 30%
Corporate Notes & Bonds	29,897,738	31,023,280	1.49%	30%
Money Market Funds	111,000,000	111,095,465	5.53%	20%
Federal Agency Notes & Bonds (2)	423,302,390	426,623,727	21.10%	no limit
Federal Agency Discount Notes	869,233,868	870,573,620 (1)	43.32%	no limit
US Treasury Bills	9,948,181	9,979,784 (1)	0.50%	no limit
US Treasury Notes	30,071,371	30,143,900	1.50%	no limit
Total Investments	<u>\$1,964,582,196</u>	<u>\$1,971,292,869</u>	97.92%	
Cash in Bank and on Hand	41,815,098	41,815,098	2.08%	
Total Treasurer's Pool	<u>\$2,006,397,294</u>	<u>\$2,013,107,967</u>	100.00%	

Footnotes:

Of the total cash and investment holdings listed above \$1,424,095,533 or 70.98% consisted of cash and investments maturing within three months of this report. See Attachment 1B for full graphic illustration of Treasurer's investment by maturity.

(1) Market value of investments that have a maturity under 1 year from date of purchase are reflected at COST + ACCRUED INTEREST.

(2) The Federal Agency notes holdings consisted of the following breakdown:

Bullet issues	\$82,379,140	4.11%
Callable issues	340,923,250	16.99%
Total	<u>\$423,302,390</u>	21.10%

Construction Activity

The following table summarizes historical residential building permit valuation for the County.

ALAMEDA COUNTY
Residential Building Permit Valuation
(Dollars in Thousands)

<u>Year^(a)</u>	<u>Units^(b)</u>	<u>Valuation^(c)</u>
1999	4,484	\$843,660
2000	4,138	950,188
2001	3,249	665,961
2002	3,555	889,870
2003	4,469	942,388

(a) As of January 1.

(b) Does not include alterations and additions.

(c) Includes all residential building activity.

Source: "California Building Permit Activity," Economic Sciences Corporation.

Commercial Activity

The following table summarizes historical taxable transactions in the County.

ALAMEDA COUNTY
Taxable Transactions
(Dollars in Thousands)

<u>Year</u>	<u>Outlets</u>	<u>Taxable Transactions</u>
1998	40,211	\$19,221,688
1999	40,640	20,672,287
2000	40,866	23,763,516
2001	41,709	22,758,085
2002	41,430	21,264,629

Source: State Board of Equalization.

Major Employers

The following table summarizes the major employers in the County.

ALAMEDA COUNTY		
Major Employers		
<u>Employer</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Kaiser Foundation Health Plan	Not-for-profit managed health care operating a network of doctors & hospitals	16,500
Lawrence Livermore National Lab	Nuclear, environmental, energy & biomedical research & development	9,000
New United Motor Manufacturing	Manufactures automobiles & trucks	7,000
Lawrence Berkeley National Lab	Commercial research & development	5,000
PeopleSoft Inc.	Develops prepackaged software for human resources, financial, manufacturing & high education applications	4,750
Fremont Unified School District	Public school district	3,500
ADT Inc.	Retail home security equipment store	3,000
Safeway	Supermarket	2,590
AC Transit	Public transportation system for Alameda & Contra Costa Counties	2,400
Hayward Unified School District	Public school district	2,400
Alameda County Medical Center	County hospital	2,200
Bayer Corp.	Develops & manufactures biological & biotechnology derived pharmaceuticals	2,000
Read-Rite Corp.	Manufactures recording heads & head stack assemblies for disk drives & magnetic-resistive heads for quarter inch cartridge tape drives	2,000
Clorox Co. Inc.	Manufactures polishes, cleaning & sanitation products	1,950
Albertson's	Supermarket	1,920
Children's Hospital Medical Center	Medical & surgical hospital for children	1,900
Livermore Valley Jt. Unified School District	Public school district	1,600
Summit Medical Center	Medical & surgical hospital	1,500
Sybase Inc.	Publishes e-business software, seminars & consulting services	1,500
Lam Research Corp.	Manufactures wafer fabrication equipment & services for the semiconductor industries	1,400
Chiron Corp.	Provides biotechnology development for prevention & treatment of cancer, heart & infectious diseases	1,300
Sandia National Laboratories	Nuclear research & development laboratories	1,300
Seagate Recording Media	Manufactures CD disks for hard disk drives	1,300

Source: 2003 Harris InfoSource; March 2004.

The following table summarizes the historical numbers of workers in the Oakland Metropolitan Statistical Area, which is comprised of both Alameda and Contra Costa Counties, by industry.

OAKLAND MSA
Estimated Number of Wage and Salary Workers by Industry^(a)
(in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Agricultural	2,300	3,000	3,000	3,000	2,700
Natural Resources and Mining	2,300	2,400	1,600	1,200	800
Construction	60,000	65,500	69,700	66,600	67,200
Manufacturing	112,100	116,500	13,200	103,600	97,400
Trade, Transportation and Utilities	202,700	207,600	210,000	204,600	198,000
Information	35,000	39,000	37,700	35,200	32,300
Financial Activities	50,000	50,600	58,600	62,500	67,900
Professional and Business Services	160,200	170,200	159,000	149,600	143,400
Educational and Health Services	109,200	110,700	112,500	114,700	117,400
Leisure and Hospitality	72,400	73,700	77,900	79,900	80,600
Other Services	31,000	31,900	35,800	37,800	37,700
Government	<u>173,000</u>	<u>176,600</u>	<u>178,800</u>	<u>184,200</u>	<u>182,100</u>
Total All Industries	1,010,200	1,047,600	1,057,800	1,042,800	1,027,400

^(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are *not* comparable to the data based on the Standard Industrial Classification (SIC). Items may not add to totals due to independent rounding. March 2003 Benchmark

Source: California Employment Development Department, Labor Market Information Division.

Employment

The following table summarizes historical employment and unemployment in Alameda County.

ALAMEDA COUNTY					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	688,100	712,600	714,400	704,600	698,900
Unemployment	<u>24,600</u>	<u>21,700</u>	<u>34,100</u>	<u>51,600</u>	<u>51,000</u>
Total	<u>712,700</u>	<u>734,300</u>	<u>748,500</u>	<u>756,200</u>	<u>749,900</u>
Unemployment Rate ^(b)	3.5%	3.0%	4.6%	6.8%	6.8%

(a) Based on place of residence; March 2003 Benchmark.
(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division

The following table summarizes historical employment and unemployment in the Oakland Metropolitan Statistical Area, which comprises both the County and Contra Costa County.

OAKLAND MSA					
Civilian Labor Force, Employment and Unemployment					
Annual Averages					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ^(a)					
Employment	1,170,200	1,198,600	1,206,100	1,197,300	1,187,700
Unemployment	<u>39,700</u>	35,300	50,800	78,500	<u>79,700</u>
Total	<u>1,209,900</u>	1,233,900	1,256,900	1,275,800	<u>1,267,400</u>
Unemployment Rate ^(b)	3.3%	2.9%	4.0%	6.2%	6.3%

(a) Based on place of residence; March 2003 Benchmark.
(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division

ALAMEDA COUNTY ECONOMIC PROFILE

Introduction

Alameda County (the "County") is located on the east side of the San Francisco Bay and extends from the Cities of Berkeley and Albany in the north to the City of Fremont in the south. It is the sixth most populous county in the State, with most of its population is concentrated in a highly urbanized area between the San Francisco Bay and the East Bay Hills.

The northern part of the County has direct access to San Francisco Bay and the city of San Francisco. It is highly diversified with residential areas as well as traditional heavy industry, the University of California at Berkeley, the Port of Oakland, and sophisticated manufacturing, computer services and biotechnology firms. The middle of the County is also highly developed, including older established residential and industrial areas. The southeastern corner of the County has seen strong growth in residential development and manufacturing. Many high-tech firms have moved from neighboring Silicon Valley in Santa Clara County into this area. The southwestern corner of the County has seen the most development in recent years due to land availability. Agriculture and the rural characteristics of this area are disappearing as the region maintains its position as the fastest growing residential, commercial and industrial part of the County.

Population

The following table summarizes population figures for the County.

ALAMEDA COUNTY Population

<u>Year</u>	<u>Alameda County</u>
2000	1,443,939
2001	1,465,000
2002	1,481,900
2003	1,487,700
2004	1,498,000

Source: Based upon adjusted January 1 estimates provided by the State.

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**APPENDIX C
ALAMEDA COUNTY**

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District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: [Closing Date]

_____ SCHOOL DISTRICT

By _____
Title _____

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Notes pursuant to the Resolution.

Section 4. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the District shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

Section 5. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Notes, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATES

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the _____ SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of _____ County (the "Board") in the name of the District of \$_____ School District (_____ County, California) 2004 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Education [or Trustees] of the District on _____, 2004, and a resolution adopted by the Board on _____, 2004 (collectively, the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Dissemination Agent*" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"*Participating Underwriter*" shall mean any of the original underwriters of the Notes required to comply with the Rule in connection with offering of the Notes.

"*Repository*" shall mean each State Repository.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or uncheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

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APPENDIX B
FORM OF CONTINUING DISCLOSURE CERTIFICATES

5. The interest on the Notes is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

FORM OF LEGAL OPINION FOR NON- BANK QUALIFIED DISTRICT

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education [or Trustees]
_____ School District

_____, California _____

OPINION: \$ _____ School District (_____ County, California) 2004 Tax and Revenue Anticipation Notes

Members of the Board of Education [or Trustees]:

We have acted as bond counsel to the _____ School District (the "District") in connection with the issuance by the Board of Supervisors of _____ County (the "Board") of \$ _____ principal amount of _____ School District (_____, California) 2004 Tax and Revenue Anticipation Notes, dated _____, 2004 (the "Notes"), pursuant to Article 7.6 (commencing with section 53850), Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, and a resolution of the Board adopted on _____, 2004 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Notes in its name and to perform its obligations under the Resolution and the Notes.

2. The Resolution has been duly adopted by the Board and creates a valid first lien on the funds pledged under the Resolution for the security of the Notes.

3. The Notes have been duly authorized, issued and delivered by the Board and are valid and binding general obligations of the District enforceable in accordance with their terms.

4. The interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. We express no opinion regarding other federal tax consequences arising with respect to the Notes.

(the "Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for eighty percent (80%) of that portion of such financial institutions' interest expense allocable to interest payable on the Notes. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. We express no opinion regarding other federal tax consequences arising with respect to the Notes.

5. The interest on the Notes is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX A
FORMS OF LEGAL OPINIONS

FORM OF LEGAL OPINION FOR BANK QUALIFIED DISTRICT

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education [or Trustees]
_____ School District

_____, California _____

OPINION: \$ _____ School District (_____ County, California) 2004 Tax and Revenue Anticipation Notes

Members of the Board of Education [or Trustees]:

We have acted as bond counsel to the _____ School District (the "District") in connection with the issuance by the Board of Supervisors of _____ County (the "Board") of \$ _____ principal amount of _____ School District (_____, California) 2004 Tax and Revenue Anticipation Notes, dated _____, 2004 (the "Notes"), pursuant to Article 7.6 (commencing with section 53850), Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, and a resolution of the Board adopted on _____, 2004 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Notes in its name and to perform its obligations under the Resolution and the Notes.

2. The Resolution has been duly adopted by the Board and creates a valid first lien on the funds pledged under the Resolution for the security of the Notes.

3. The Notes have been duly authorized, issued and delivered by the Board and are valid and binding general obligations of the District enforceable in accordance with their terms.

4. The interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Notes are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986

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**APPENDIX A
FORMS OF LEGAL OPINIONS**

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Additional Information

The purpose of this Official Statement is to furnish information in connection with the sale of the Notes. Quotations from and summaries and explanations of the Notes, the Authorizing Resolutions for the Notes, and the constitutional provisions, statutes, and other documents contained herein do not purport to be complete, and reference is hereby made to said Notes, Authorizing Resolutions, constitutional provisions, statutes, and other documents for full and complete statements of their provisions.

All data contained herein have been taken or constructed from each District's records and other sources. The appropriate official of each District, acting in his or her official capacity, has reviewed this Official Statement and has determined that, as of the date hereof, the information contained herein is, to the best of his or her knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The appropriate official of each District will execute a certificate to this effect upon delivery of the Notes. This Official Statement and its distribution have been duly authorized and approved by each District Board.

ALAMEDA UNIFIED SCHOOL DISTRICT

/s/ Dr. Alan Nishino
Superintendent

CUPERTINO UNION SCHOOL DISTRICT

/s/ William F. Hausman, Jr.
Assistant Superintendent, Business Services

FREMONT UNION HIGH SCHOOL DISTRICT

/s/ Michael Rafetto
Chief Business Officer/Associate Superintendent

MILPITAS UNIFIED SCHOOL DISTRICT

/s/ Karen Allen
Assistant Superintendent, Business Services

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT

/s/ Tim Justus
Superintendent

ALBANY UNIFIED SCHOOL DISTRICT

/s/ William L. Wong, Ed.D.
Superintendent

DUBLIN UNIFIED SCHOOL DISTRICT

/s/ Beverly Heironimus
Chief Fiscal Officer

LOS ALTOS SCHOOL DISTRICT

/s/ Randall A. Kenyon, Jr.
Assistant Superintendent, Business Services

PETALUMA JOINT UNION HIGH SCHOOL DISTRICT

/s/ Steve Bolman
Deputy Superintendent Business and Administration

SAN LORENZO UNIFIED SCHOOL DISTRICT

/s/ Lowell Shira
Assistant Superintendent Business Services

SUNNYVALE SCHOOL DISTRICT

/s/ Benjamin H. Picard
Deputy Superintendent

CERES UNIFIED SCHOOL DISTRICT

/s/ Scott Siegel
Assistant Superintendent, Business Services

EVERGREEN SCHOOL DISTRICT

/s/ James Crawford
Assistant Superintendent of Business Services

LOS GATOS UNION SCHOOL DISTRICT

/s/ Linda Latasa
Assistant Superintendent Business Services

PIEDMONT UNIFIED SCHOOL DISTRICT

/s/ Constance Hubbard
Superintendent

SEQUOIA UNION HIGH SCHOOL DISTRICT

/s/ Patrick R. Gemma
Superintendent

duly authorized to do so; and

- (f) The receipt of the District for the purchase price of the Notes.
- (g) The Continuing Disclosure Certificate of the District in substantially the form shown in **APPENDIX B** attached hereto.

Financial Advisor

The Districts have entered into an agreement with Kelling, Northcross & Nobriga, A Division of Zions First National Bank, (the “Financial Advisor”) whereunder the Financial Advisor provides financial recommendations and guidance to the Districts with respect to preparation for sale of the Notes, timing of sale, tax-exempt bond market conditions, costs of issuance, and other factors related to the sale of the Notes. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement and has supervised the completion and editing thereof. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the Districts, with respect to accuracy and completeness of disclosure of such information, and the Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

The Financial Advisor has obtained permission from each separate District, except Petaluma Joint Union High School District, Rincon Valley Union Elementary School District and Sequoia Union High School District, for Zions First National Bank to submit a bid in its behalf, or participate in a syndicate account, at the public sale for the purchase of the Notes. Financial Advisor fees are contingent upon the sale and delivery of the Notes.

Continuing Disclosure

Each District will benefit of holders and beneficial owners of its Notes to provide notice of the occurrence of certain enumerated events, if material. The notices of material events will be filed by each District with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the notices of material events is set forth in “**APPENDIX B — FORM OF CONTINUING DISCLOSURE CERTIFICATES.**” These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

IRS Audit Program

The Internal Revenue Service, as part of its regular audit program, has focused on California school district tax and revenue anticipation notes in recent years. As part of the Alameda County Office of Education TRAN pool, the Albany Unified School District, the Dublin Unified School District and the Piedmont City Elementary School District, and as an individual issuer, the Fremont Union High School District are among the districts whose prior year tax and revenue anticipation note issues are under audit. Each District is cooperating with the information requests of the IRS. The Districts can provide no current estimate of the outcome of their discussions with the IRS.

Underwriting

Pursuant to the terms of separate and distinct public bids held on ~~March 4, 2004~~, each separate issue of Notes is being purchased for reoffering pursuant to the terms and conditions set forth on the cover page of this Official Statement, by the respective underwriter specified in the table below (the "Underwriters").

<u>Issuer</u>	<u>Underwriter</u>	<u>CUSIP</u>	<u>Purchase Price</u>
Alameda Unified School District	Banc of America Securities	010824GA2	\$ 4,660,377
Albany Unified School District	Zions First National Bank	012104ZKE4	2,735,154
Ceres Unified School District	Banc of America Securities	156753EG6	5,532,135
Cupertino Union School District	Banc of America Securities	231237WD6	8,614,078
Dublin Unified School District	Commerce Capital Markets, Inc.	26362VAV0	3,545,500
Evergreen School District	O'Connor Southwest Securities	300191YB3	6,082,380
Fremont Union High School District	O'Connor Southwest Securities	357172RL1	9,630,860
Los Altos School District	Wells Fargo Brokerage Services, LLC	544290DU0	6,333,937
Los Gatos Union School District	Wells Fargo Brokerage Services, LLC	545522LM4	3,039,390
Milpitas Unified School District	Zions First National Bank	601670GF3	3,545,363
Petaluma Joint Union High School District	Banc of America Securities	715875RY8	5,299,806
Piedmont Unified School District	Zions First National Bank	720135JN3	3,544,243
Rincon Valley Union Elementary School District	Wells Fargo Brokerage Services, LLC	76778PAW4	2,520,550
San Lorenzo Unified School District	Banc of America Securities	798492HN7	4,052,573
Sequoia Union High School District	O'Connor Southwest Securities	817409QW8	13,181,090
Sunnyvale School District	Banc of America Securities	867578MK9	5,066,438

Closing Papers

The District will furnish to the Underwriters, without charge, concurrently with payment for and delivery of the Notes by the Underwriters, the following closing papers, each dated the date of such delivery:

- (a) The opinion of Quint & Thimmig, LLP, San Francisco, California, Bond Counsel, substantially in the form attached as **APPENDIX A** hereto;
- (b) The tax certificate of the District containing certifications and covenants relied upon by Bond Counsel in rendering its opinion that the interest on the Notes is exempt from federal income taxation;
- (c) The certificate on behalf of the District certifying that there is no litigation pending affecting the validity of the Notes;
- (d) The Certificate of an appropriate District official, acting on behalf of the District solely in his or her official and not in his or her personal capacity, certifying that at the time of the sale of the Notes and at all times subsequent thereto up to and including the time of delivery of the Notes to the initial purchasers thereof, to the best knowledge and belief of said Official, this Official Statement (excluding the description of the DTC and its book-entry system, information provided by the Underwriter relating to the underwriting and the reoffering of the Notes, and information relating to the investment of District funds, provided by the County Treasurer-Tax Collector), did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;
- (e) The signature certificate of the officials of the District certifying that said officials have signed the Notes, whether by facsimile or manual signature, and that they were respectively

Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Notes other than as expressly described above.

Legality for Investment in California

Under the provisions of the Financial Code of the State, the Notes are legal investments for commercial banks in the State to the extent that the Notes, in the informed opinion of the bank, are prudent for the investment funds of its depositors, and under provisions of the Government Code of the State are eligible to secure deposits of public moneys in the State.

No Litigation

No litigation is pending or threatened against any District concerning the validity of the Notes of such District and a certificate of each of the Districts to that effect will be available at the time of original delivery of the Notes. Each respective District is not aware of any litigation pending or threatened questioning the political existence of such District or contesting such District's ability to collect or receive the Pledged Revenues, or contesting its ability to pay the principal of and interest on the Notes.

There may be one or more lawsuits and claims pending against some Districts. The aggregate amount of the uninsured liabilities of any District, and the timing of any anticipated payments of judgments which may result from suits and claims will not materially affect the finances of such District or impair its ability to repay the Notes. A certificate of each District to this effect will be available at the time of original delivery of the Notes.

Legal Opinion

The opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel to each of the Districts with respect to the Notes, approving the validity of the Notes and stating that, in the opinion of Bond Counsel, interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from personal income taxation by the State will be provided free of charge to the purchasers at the time of the original delivery of the Notes. See “**APPENDIX A — FORMS OF LEGAL OPINIONS**”.

MISCELLANEOUS

Ratings

Standard & Poor's has separately assigned its municipal note rating of “SP-1+” to each issue of Notes, with the exception of Piedmont Unified School District, which was assigned its municipal rating of “SP-1”. Such ratings reflect only the view of Standard & Poor's and any desired explanation of the significance of such ratings should be obtained from the rating agency at the following address: Standard & Poor's Services, 55 Water Street, 38th Floor, New York, New York 10041.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that a rating assigned will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect of the market price of the Notes.

LEGAL MATTERS

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on each issue of Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Notes issued in the name of the Districts identified as "Bank Qualified" on the cover of this Official Statement are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable on such Notes.

The opinions set forth in the preceding paragraph are subject to the condition that the Districts comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. Each District will comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes.

In the further opinion of Bond Counsel, interest on each issue of Notes is exempt from California personal income taxes.

Purchasers should be aware that the Internal Revenue Service (the "IRS") has issued Notice 94-84 which may have certain tax ramifications with respect to the Notes. This Notice provides generally that, in the case of short-term tax-exempt obligations, such as the Notes, the IRS is studying whether interest payable at maturity on the obligations should, or should not, be included in stated redemption price at maturity, for purposes of the Rule, that original issue discount represents the excess of the stated redemption price at maturity over issue price.

Notice 94-84 states that until the IRS provides further guidance, taxpayers may treat stated interest on certain short-term obligations, such as the Notes, either as includable in stated redemption price at maturity or as not included in stated redemption price at maturity. A taxpayer, however, must treat stated interest payable at maturity on all short-term tax-exempt bonds in a consistent manner. A short-term tax-exempt bond is defined as a tax-exempt bond with a term that is not more than 1 year from the date of issue.

Purchasers of the Notes are cautioned that the opinion of Bond Counsel does not identify the amount of interest that is excluded from gross income for federal income tax purposes.

Purchasers of the Notes should consult their tax advisors regarding effects of Notices 94-84 upon individual tax circumstances.

Owners of the Notes should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Notes may have federal or state tax consequences other than as described above. Bond

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 16 - DEFERRED STATE APPROPRIATIONS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves in the General Fund of \$330,837.

NOTE 17 - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2002, the District issued \$5,000,000 Tax and Revenue Anticipation Notes bearing interest at 3%. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2003. The District repaid the obligation by the due date.

NOTE 18 - SUBSEQUENT EVENT

The District issued \$5,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield 2% interest. The notes were sold to supplement cash flow. Repayment requirements are that 50 percent of principal and interest be deposited with the fiscal agent by January 1, 2004, and the remaining 50 percent of principal and interest due on account by April 30, 2004.

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SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Operating Leases Revenue

The District leases certain facilities under lease agreements classified as operating leases. None of the agreements contain purchase options. The rental income was approximately \$2,386,522 for the year ended June 30, 2003. The following is a schedule by fiscal year of the minimum rental receipts under such operating leases, which expire at various dates through 2010.

Year Ending June 30,	Lease Revenue
2004	\$ 2,454,788
2005	2,505,529
2006	2,408,997
2007	2,461,995
2008	2,516,159
2009-2010	5,199,602
Total	<u>\$ 17,547,071</u>

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Modernization at various sites		
Lakewood Elementary School	\$ 140,903	2/1/2004
Cherry Chase Elementary School	209,012	3/1/2004
Cumberland Elementary School	80,449	2/1/2004
Ellis Elementary School	195,372	3/1/2004
San Miguel Elementary School	1,224,465	1/30/2004
Columbia Middle School	80,000	1/1/2004
Sunnyvale Middle School	1,208,792	2/28/2004
Vargas Elementary School	719,867	1/1/2004
Cherry Chase Painting	7,785	11/1/2003
Ellis/Vargas Elementary School Relocatable Classrooms	15,637	2/1/2004
Cherry Chase Multi/Kitchen Remodel	14,800	3/1/2004
Sunnyvale Master Plan	5,000	4/1/2004
Challenger PortablElementary	7,800	9/1/03
Sunnyvale Middle School Gym Repairs	114,352	3/1/2004
	<u>\$ 4,024,234</u>	

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool and the Silicon Valley Transportation Authority (JPA). The District pays an annual premium to Santa Clara County Schools Insurance Group for its health, workers' compensation, and property liability coverage. Payments for transportation services are paid to the Silicon Valley Transportation Authority JPA. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

A. Entity	Santa Clara County Schools Insurance Group	Silicon Valley Transportation Agency
B. Purpose	Operate a common risk management and insurance program for member school districts	Provides transportation for special education students
C. Participants	School districts and county office of education	School districts
D. Governing Board	One representative from each member district	One representative from each member district
E. Condensed Audited Financial Information Follows		
	June 30, 2002*	June 30, 2003
Assets	\$ 22,002,395	\$ 585,202
Liabilities	9,351,369	456,460
Fund Equity	<u>\$ 12,651,026</u>	<u>\$ 128,742</u>
Revenues	20,818,065	4,087,807
Expenses	22,865,293	4,053,587
Net Increase (Decrease) in Fund Equity	<u>\$ (2,047,228)</u>	<u>\$ 34,220</u>
F. Payments for the Current Year	<u>\$ 1,203,328</u>	<u>\$ 655,817</u>

* Most recent information available.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 13 – 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 2002-2003 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, 2003, 2002, and 2001, were \$1,810,849, \$1,715,413, and \$1,620,707, 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.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$237,061, \$0, and \$0, 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 use Social Security as its alternative plan.

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 \$981,152 (4.475 percent of salaries subject to STRS) and \$7,666 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 14 - 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, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Nonmajor Governmental	Total
Reserved			
Revolving cash	\$ 26,000	\$ 300	\$ 26,300
Stores inventory	101,473	49,407	150,880
Prepaid expenditures	-	70,000	70,000
Restricted programs	1,071,652	-	1,071,652
Total Reserved	1,199,125	119,707	1,318,832
Unreserved			
Designated			
Other designation	307,190	-	307,190
Undesignated	1,638,313	5,359,051	6,997,364
Total Unreserved	1,945,503	5,359,051	7,304,554
Total	\$ 3,144,628	\$ 5,478,758	\$ 8,623,386

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 11 years of service. Currently, 97 employees meet those eligibility requirements. The District contributes various percentages depending on the plans and covers the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees report claims/(premiums are paid). During the year, expenditures of \$528,574 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$3,033,476. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining.

NOTE 12 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with Santa Clara County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Workers' Compensation

For fiscal year 2003, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. 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 Santa Clara County Schools Insurance Group. 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." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Group selection criteria.

Insurance coverage's for property and liability and workers' compensation are as follows:

Insurance Program / Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u>		
Santa Clara County Schools Insurance Group	Workers' Compensation	State Statutory Limits
<u>Property/Liability Program</u>		
Santa Clara County Schools Insurance Group	Excess Property Liability	\$ 95,000,000
	Property Liability	\$ 100,000,000
	Equipment	\$ 26,295,950
	Liability	\$ 5,000,000
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Liability	\$ 15,000,000
Northern California ReLiEF	Excess Liability	\$ 2,000,000

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance			Balance		Due in
	July 1, 2002	Additions	Deductions	June 30, 2003	One Year	
General obligation bonds	\$ 32,555,863	\$ 307,567	\$ 685,000	\$ 32,178,430	\$ 810,000	
Accumulated vacation - net	280,688	4,874	-	285,562	285,562	
Capital leases	2,597,222	-	482,104	2,115,118	517,805	
	<u>\$ 35,433,773</u>	<u>\$ 312,441</u>	<u>\$ 1,167,104</u>	<u>\$ 34,579,110</u>	<u>\$ 1,613,367</u>	

Payments on the general obligation bonds are made by the bond interest and redemption fund which has a separate revenue source dedicated to the repayment of the bonds. Payments on the capital leases are made by the general fund. Additions to the General Obligation Bonds consist solely of interest accretion on Capital Appreciation Bonds.

Debt Service Requirements to Maturity

The bonds mature through 2025 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 810,000	\$ 1,413,763	\$ 2,223,763
2005	940,000	1,347,824	2,287,824
2006	1,025,000	1,301,237	2,326,237
2007	1,125,000	1,242,220	2,367,220
2008	1,041,145	1,385,244	2,426,389
2009-2013	5,921,809	6,937,580	12,859,389
2014-2018	6,825,317	6,718,930	13,544,247
2019-2023	8,301,676	5,192,009	13,493,685
2024-2025	5,060,000	294,975	5,354,975
Subtotal	31,049,947	\$ 25,833,782	\$ 56,883,729
Accretion to date	1,128,483		
Total	<u>\$ 32,178,430</u>		

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$5,347,571 with corresponding accumulated depreciation of \$2,406,407 at June 30, 2003. The District's liability on lease agreements with options to purchase are summarized below:

	City of Sunnyvale	Energy Retrofit	Total
Balance, July 1, 2002	\$ 2,828,885	\$ 482,287	\$ 3,311,172
Payments	(397,958)	(240,355)	(638,313)
Balance, June 30, 2003	<u>\$ 2,430,927</u>	<u>\$ 241,932</u>	<u>\$ 2,672,859</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 648,431
2005	404,054
2006	404,055
2007	295,599
2008	184,144
2009-2013	736,576
Total	2,672,859
Less: Amount Representing Interest	557,741
Present Value of Minimum Lease Payments	<u>\$ 2,115,118</u>

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Balance June 30, 2003
Governmental Activities			
Capital Assets not being depreciated:			
Land	\$ 3,814,433	\$ -	\$ 3,814,433
Total Capital Assets not being depreciated	3,814,433	-	3,814,433
Capital Assets being depreciated:			
Buildings and Improvements	58,114,401	9,117,599	67,232,000
Furniture and Equipment	2,142,165	159,417	2,301,582
Total Capital Assets being depreciated	60,256,566	9,277,016	69,533,582
Total Capital Assets	64,070,999	9,277,016	73,348,015
Less Accumulated Depreciation:			
Buildings and Improvements	13,670,805	1,365,316	15,036,121
Furniture and Equipment	1,215,677	175,984	1,391,661
Total Accumulated Depreciation	14,886,482	1,541,300	16,427,782
Governmental Activities Capital Assets, Net	\$ 49,184,517	\$ 7,735,716	\$ 56,920,233

NOTE 6 -- INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds are as follows:

	Due From		
	Nonmajor		
	General	Governmental	Total
Due To General	\$ -	\$ 25,714	\$ 25,714
Nonmajor governmental	123,462	51,500	174,962
Total	\$ 123,462	\$ 77,214	\$ 200,676

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

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

The General Fund transferred to the Child Development Fund for encroachment	\$ 25,454
The Building Fund transferred to the Deferred Maintenance Fund for District match	54,989
Total	<u>\$ 80,443</u>

NOTE 7 -- ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	County School Facilities	Nonmajor Governmental	Total
Vendor payables	\$ 227,614	\$ 187,302	\$ 59,382	\$ 474,298
Salaries and benefits	696,222	-	-	696,222
Other significant payables	221,022	465,374	-	686,396
Other	72,500	-	47	72,547
Total	\$ 1,217,358	\$ 652,676	\$ 59,429	\$ 1,929,463

NOTE 8 -- DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	County School Facilities	Total
Federal financial assistance	\$ 180,638	\$ -	\$ 180,638
State categorical aid	223,103	-	223,103
School facilities apportionment	-	3,462,727	3,462,727
Other local	203,651	-	203,651
Total	\$ 607,392	\$ 3,462,727	\$ 4,070,119

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Cash

Cash at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 70,367	\$ 114,573	\$ 184,940
Cash in revolving fund	29,633	-	29,633
Cash with fiscal agent	-	5,149,583	5,149,583
Total	\$ 100,000	\$ 5,264,156	\$ 5,364,156

	Governmental	Fiduciary	Total
	Carrying Amount	Carrying Amount	
Cash on hand and in banks	\$ -	\$ 175,741	\$ 175,741
Cash in revolving fund	26,300	-	26,300
Cash with fiscal agent	5,149,583	-	5,149,583
Cash awaiting deposit	18,926	-	18,926
Total	\$ 5,194,809	\$ 175,741	\$ 5,370,550

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the district's name. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with the County Treasury and State pool investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the County and State sponsors for their respective pools.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Category 2	Reported Amount	Fair Value
Categorized:			
U.S treasury note	\$ 661,424	\$ 661,424	\$ 661,424
Uncategorized:			
Investment in state treasurer's pool		221,022	221,651
Deposits with county treasurer		11,131,448	11,158,609
Subtotal		12,013,894	12,041,684
Deficit cash balances		5,591	5,605
Total		\$ 12,008,303	\$ 12,036,079

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	County School Facilities	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 419,579	\$ -	\$ 174,800	\$ 594,379
State Government				
Apportionment	197,907	-	-	197,907
Categorical aid	951,767	-	11,611	963,378
Lottery	325,812	-	-	325,812
Other state	-	-	65,909	65,909
Local Government				
Interest	46,368	13,044	16,734	76,146
Other Local Sources				
	106,918	-	18,110	125,028
Total	\$ 2,048,351	\$ 13,044	\$ 287,164	\$ 2,348,559

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 net borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

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

Budgetary Data

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

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

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

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 2 -- CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 -- DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Investments

Investments held at June 30, 2003, 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.

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.

Prepaid Expenditures

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

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

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 funds.

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

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.

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and 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. 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 function 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.

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

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

SUNNYVALE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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

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

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

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Deposits and Investments

The District's deposits and investments are considered to be cash on hand, demand deposits, short-term investments and investments with the County Treasury and the State Treasurer's Investment Pool.

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Sunnyvale School District was organized in 1904 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates eight elementary, and two middle schools.

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

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agency and one public entity risk pool. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

Santa Clara County School Insurance Group
Silicon Valley Transportation Agency

Basis of Presentation - Fund Accounting

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

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

SUNNYVALE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Other Non-Major Governmental Funds

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

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

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

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

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.

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 exists primarily to account separately for proceeds from sale of bonds and 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).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District has the agency funds only.

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).

SUNNYVALE 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, 2003

Total Net Change in Fund Balances - Governmental Funds			\$ (5,109,266)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:			
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities.			
This is the amount by which capital outlays exceeds depreciation in the period.			
Depreciation expense	\$ (1,541,300)		
Capital outlays	<u>9,277,016</u>	7,735,716	
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by \$4,874.			(4,874)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.			1,167,104
Accreted interest on capital appreciation bonds in the statement of activities differs from the amount reported in the governmental funds because accreted interest does not require the use of current financial resources, and thus is not recorded in the governmental funds. In the statement of activities, however, accreted interest expense is recognized as the interest accrues, regardless of when it is due.			(307,567)
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 governmental funds when it is paid, 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 paid. The reduction in interest expense reported in the statement of activities is the net result of two factors.			
			<u>25,405</u>
Change in Net Assets of Governmental Activities			<u>\$ 3,506,518</u>

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

SUNNYVALE SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

	Agency Funds
ASSETS	
Cash and cash equivalents	<u>\$ 175,741</u>
Total assets	<u>\$ 175,741</u>
LIABILITIES	
Due to student groups	<u>\$ 175,741</u>
Total liabilities	<u>\$ 175,741</u>

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

SUNNYVALE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

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

Total Fund Balance - Governmental Funds	\$ 8,623,386
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	\$ 73,348,015
Accumulated depreciation is	<u>(16,427,782)</u> 56,920,233
In governmental funds, interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, interest on long-term debt is recognized as it accrues.	(487,026)
In governmental funds, security deposits due to the lessees are recognized as expenditures in the period when paid. On the government-wide statements, security deposits held on hand are recognized as liabilities.	(300,000)
Long-term liabilities at year end consist of:	
Bonds payable	32,178,430
Capital leases payable	2,115,118
Compensated absences (vacations)	<u>285,562</u> (34,579,110)
Total Net Assets - Governmental Activities	<u>\$ 30,177,483</u>

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

SUNNYVALE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 31,303,578	\$ -	\$ -	\$ 31,303,578
Federal sources	1,566,524	-	922,276	2,488,800
Other state sources	6,442,553	3,945,081	434,026	10,821,660
Other local sources	6,583,879	15,878	3,478,238	10,077,995
Total Revenues	<u>45,896,534</u>	<u>3,960,959</u>	<u>4,834,540</u>	<u>54,692,033</u>
EXPENDITURES				
Current				
Instruction	28,481,014	-	209,878	28,690,892
Instruction related activities:				
Supervision of instruction	1,291,123	-	26,650	1,317,773
Instructional library, media and technology	825,259	-	-	825,259
School site administration	3,164,618	-	12,681	3,177,299
Pupil Services:				
Home-to school transportation	1,303,405	-	-	1,303,405
Food services	-	-	1,822,639	1,822,639
All other pupil services	2,177,206	-	4,624	2,181,830
General administration:				
Data processing	630,443	-	-	630,443
All other general administration	3,485,345	-	117,101	3,602,446
Plant services	4,002,419	15,300	153,559	4,171,278
Facility acquisition and construction	115,849	3,945,659	5,072,633	9,134,141
Community services	116,835	-	-	116,835
Debt service				
Principal	262,104	-	905,000	1,167,104
Interest and other	140,111	-	1,519,844	1,659,955
Total Expenditures	<u>45,995,731</u>	<u>3,960,959</u>	<u>9,844,609</u>	<u>59,801,299</u>
Deficiency of revenues over expenditures	(99,197)	-	(5,010,069)	(5,109,266)
Other Financing Sources (Uses):				
Transfers in	-	-	80,443	80,443
Transfers out	(25,454)	-	(54,989)	(80,443)
Net Financing Sources (Uses)	<u>(25,454)</u>	<u>-</u>	<u>25,454</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(124,651)</u>	<u>-</u>	<u>(4,984,615)</u>	<u>(5,109,266)</u>
Fund Balance - Beginning	3,269,279	-	10,463,373	13,732,652
Fund Balance - Ending	<u>\$ 3,144,628</u>	<u>\$ -</u>	<u>\$ 5,478,758</u>	<u>\$ 8,623,386</u>

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

SUNNYVALE SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for	Operating	Capital	Revenues and
		Services and	Grants and	Grants and	Changes in Net Assets
	Sales	Contributions	Contributions	Governmental	
				Activities	
Governmental activities:					
Instruction	\$ 28,690,613	\$ 75,266	\$ 4,764,626	\$ 3,945,081	\$ (19,905,640)
Instruction related activities:					
Supervision of instruction	1,317,773	38,019	694,524	-	(585,230)
Instructional library, media and technology	825,259	8	142,531	-	(682,720)
School site administration	3,177,299	14	174,202	-	(3,003,083)
Pupil services:					
Home-to-school transportation	1,186,002	17,044	759,513	-	(409,445)
Food services	1,797,639	903,470	917,591	-	23,422
All other pupil services	2,181,830	1,024	730,425	-	(1,450,381)
General administration:					
Data processing	630,443	-	-	-	(630,443)
All other general administration	3,607,320	50,622	220,147	-	(3,336,551)
Plant services	4,162,968	9,428	-	-	(4,153,540)
Facility acquisition and construction	8,117	-	-	-	(8,117)
Community services	116,835	-	-	-	(116,835)
Interest on long-term debt	1,942,117	-	-	-	(1,942,117)
Other (outgo)	-	17,818	-	-	17,818
Depreciation (unallocated)	1,541,300	-	-	-	(1,541,300)
Total governmental-type activities	\$ 51,185,515	\$ 1,112,713	\$ 8,403,559	\$ 3,945,081	\$ (37,724,162)
General revenues and subventions:					
Property taxes, levied for general purposes					30,296,146
Property taxes, levied for debt service					2,310,981
Federal and State aid not restricted to specific purposes					3,597,246
Interest and investment earnings					397,579
Miscellaneous					4,628,728
					<u>41,230,680</u>
Change in net assets					3,506,518
Net assets - beginning					26,670,965
Net assets - ending					<u>\$ 30,177,483</u>

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

SUNNYVALE SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003**

	General Fund	County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 7,871,389	\$ 4,102,359	\$ 5,234,955	\$ 17,208,703
Receivables	2,048,351	13,044	287,164	2,348,559
Due from other funds	123,462	-	77,214	200,676
Prepaid expenses	-	-	70,000	70,000
Stores inventories	101,473	-	49,407	150,880
Total assets	\$10,144,675	\$ 4,115,403	\$ 5,718,740	\$ 19,978,818
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ 5,591	\$ 5,591
Accounts payable	1,217,358	652,676	59,429	1,929,463
Due to other funds	25,714	-	174,962	200,676
Other current liabilities	5,149,583	-	-	5,149,583
Deferred revenue	607,392	3,462,727	-	4,070,119
Total liabilities	7,000,047	4,115,403	239,982	11,355,432
Fund Balances:				
Reserved for:				
Stores inventories	101,473	-	49,407	150,880
Other reservations	1,097,652	-	70,300	1,167,952
Unreserved:				
Designated	307,190	-	-	307,190
Undesignated, reported in:				
General fund	1,638,313	-	-	1,638,313
Special revenue funds	-	-	2,495,958	2,495,958
Debt service funds	-	-	1,725,758	1,725,758
Capital projects funds	-	-	1,137,335	1,137,335
Total fund balance	3,144,628	-	5,478,758	8,623,386
Total Liabilities and Fund Balances	\$10,144,675	\$ 4,115,403	\$ 5,718,740	\$ 19,978,818

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

SUNNYVALE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

- Caps have been imposed on hourly programs and the K-4 Reading program has been eliminated for funding
- Categorical programs may be replaced through legislation with block grants, although details will not be known for some time
- Deferred maintenance is proposed for a 67% cut
- Instructional materials is proposed for 41% cut
- School Improvement Program is proposed for a 10% cut
- Peer Assistance and Review and Beginning Teacher Support and Assessment is being reduced
- Class-size reduction will not receive a cost of living increase
- Targeted Instruction Improvement Grant is slated for an 11% deferral until 2004-2005
- Pupil Transportation funding deferral of 10% until 2004-2005

In addition to the revenue and expenditure factors listed above the following projected staffing ratios were considered during budget development.

<u>Grade Level</u>	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	2685
Grades four through sixth	32:1	1870
Grades seven and eight	35:1	1220

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Deputy Superintendent for Administrative Services, at Sunnyvale School District, 819 W. Iowa Avenue, Sunnyvale, California, 94087, or e-mail at bpicard@sesd.org.

SUNNYVALE SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets	
Deposits and investments	\$ 17,208,703
Receivables	2,348,559
Prepaid expenses	70,000
Stores inventories	150,880
Capital assets	73,348,015
Less: Accumulated depreciation	<u>(16,427,782)</u>
Total assets	76,698,375
Liabilities	
Overdrafts	5,591
Accounts payable	2,716,489
Deferred revenue	4,070,119
Current loans	5,149,583
Current portion of long-term obligations	1,613,367
Noncurrent portion of long-term obligations	<u>32,965,743</u>
Total liabilities	46,520,892
Net Assets	
Invested in capital assets, net of related debt	23,690,892
Restricted for:	
Debt service	1,238,732
Capital projects	73,128
Special revenue	665,770
Legally restricted	1,199,125
Unrestricted	<u>3,309,836</u>
Total net assets	\$ 30,177,483

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

SUNNYVALE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$ 56.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation of \$16.4 million.

Table 4

(Amounts in millions)	Governmental Activities
Land	3.8
Building and improvements	52.2
Equipment	0.9
Totals	56.9

This year's additions of \$ 9.3 million included completion of several renovation / modernization projects, several vehicles, cafeteria equipment and classroom equipment such as computers. No debt was issued for these additions.

Several capital projects are planned for the 2003-04 year. We anticipate capital additions to be \$ 4 million for the 2003-04 year. We present more detailed information about our capital assets in Note #5 to the financial statements.

Long-Term Debt

At the end of this year, the District had \$ 34.3 million in bonds and capital leases outstanding versus \$35.2 million last year, a decrease of 3 percent. The amounts consisted of:

Table 5

(Amounts in millions)	Governmental Activities
General Obligation Bond	26.1
Capital Appreciation Bond	6.1
Capital Leases	2.1
Totals	34.3

SUNNYVALE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

The District's general obligation bond rating continues to be AAA, as determined by Standard and Poor's. The State limits the amount of general obligation debt that District's can issue to 5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$ 32.2 million is significantly below this \$658.9 million statutorily imposed limit.

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in Note #9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

The District managed \$3,960,959 million School Modernization projects, which included renovations at Lakewood, Cherry Chase, Cumberland, Ellis, and Columbia Middle School.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget was adopted by the Board of Education on June 19, 2003 during the time when the California Governor and legislature were struggling with a State budget shortfall of an estimated \$38 billion. This budget shortfall at the state level created huge uncertainty for Sunnyvale School District in terms of budget and program planning for 2003-2004.

Making the matter worse was the Governor's proposal for the taking of local property taxes from basic aid school districts for use elsewhere. Had the Governor's proposal prevailed, basic aid districts, including Sunnyvale School District, would have been devastated financially and programmatically. Fortunately, the Governor modified his proposal to have basic aid district funding reduced in proportion to other regularly funded school districts (revenue limit districts).

These funding reductions had not been finalized at the state level at the time of budget adoption, but management made accommodations for reduced revenue in the proposed adoption budget based on information available at the time. Management budgeted revenue loss of \$195 per average daily attendance or \$1,004,325. This was based on the State's proposal to take away \$120 per average daily attendance plus 1.5% of the District's computed revenue limit.

The Sunnyvale School District adopted budget for 2003-2004 reflects deficit spending of \$1,345,688, but maintains reserves at year-end of approximately 6.0 percent.

Significant Budget Impacts—for 2003-2004

The following is a listing of State budget actions that were incorporated in Sunnyvale School District's budget planning and program offerings:

- Public Employees Retirement System contribution of 10.42% of classified salaries
- Deferral of mandated cost reimbursement (began in 2002-2003 deferral continues in 2003-2004 for a total deferral of \$620,000)
- No cost of living increase for the mandated Special Education program

SUNNYVALE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$51.2 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$32.6 million because the cost was paid by those who benefited from the programs (\$1.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12.3 million). Management paid for the remaining "public benefit" portion of District activities with \$ 3.6 million in Federal and State funds and with other revenues, like interest and general entitlements.

In Table 3, management has presented the cost of each of the District's operating functions, as well as each function's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Dollar amounts in millions)	TOTAL COST	NET COST
	of Services	of Services
Instruction	28.7	19.9
Guidance and counseling	4.3	2.6
School administration	3.2	3.0
Pupil transportation	1.2	0.4
Food services	1.8	-
Administration	4.2	4.0
Maintenance and operations	4.2	4.2
Other	3.6	3.6
Totals	51.2	37.7

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$8.6 million, which is a decrease of \$ 5.1 million from last year.

The primary reasons for these decreases are:

The fund balances in the Building and Deferred Maintenance Funds decreased \$4.4 million and \$.8 million, respectively. This decrease is due to:

1. Capital outlay of \$ 4.4 million for modernization projects at Cherry Chase, Ellis, Cumberland and Vargas Elementary Schools.

SUNNYVALE SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

2. Deferred maintenance projects were funded during the fiscal year in the amount of \$889,470. This funded projects at Lakewood, Cumberland, Ellis, and Columbia Middle School, leaving a year-end balance of \$70,989 in the Deferred Maintenance Fund.

The Special Revenue Fund has been designated by the Board of Education as the Reserve for Economic Uncertainty. This fund has remained stable from the prior year showing a modest increase of \$43,838 to a year balance \$1,949,895.

The debt service fund showed an increase of approximately \$150,253 at year-end.

General Fund Budgetary Highlight for 2002-2003

Over the course of the year, the District revises its budget to reflect changes in revenues and expenditures. Budget revisions were approved by the Board of Education on December 12, 2002, March 20, 2003 and April 3, 2003. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 40). Revisions were necessary to reflect material revenue changes as outlined below:

- Revenue limit revisions were made due to property tax roll revenue estimate updates provided by the Santa Clara County Controller-Treasurer Department throughout the year.
- Mandated cost reimbursement revenue provided by the State of California was eliminated from the budget due to the State's action to defer this funding until some undetermined future date.
- Local revenue was adjusted to reflect grant funding.
- Adjustments were made to State revenues to reflect funding adjustments to Categorical Programs and Special Education.

Revisions were necessary to reflect material expenditure changes as outlined below:

- Salary expenditures were increased to reflect negotiated settlements with teachers, classified and management personnel.
- Adjustments were made to employee benefits to reflect changes from the open enrollment process and the change in medical coverage from the bankrupt Lifeguard plan to the replacement Health Net plan.
- Adjustments were made to statutory benefits to reflect personnel and rate changes during the year.

SUNNYVALE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$ 30,177,483 for the fiscal year ended June 30, 2003. Of this amount, \$23,690,892 is invested in capital assets, net of related debt. 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. Management's analysis below focuses on the net assets (Table 1) and on the change in net assets (Table 2) of the District's governmental activities:

Table 1

Net Assets	Governmental Activities
Current and other assets	\$19,778,142
Capital Assets	<u>56,920,233</u>
Total Assets	76,698,375
Current liabilities	\$13,555,149
Long - Term debt	<u>32,965,743</u>
Total Liabilities	46,520,892
Net assets	
Invested in capital assets net of related debt	23,690,892
Restricted	3,176,755
Unrestricted	<u>3,309,836</u>
Total Net Assets	\$30,177,483

SUNNYVALE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so one can see the total revenues for the year.

Table 2

Revenues	Governmental Activities
Program revenues:	
Charges for services	\$ 1,112,713
Operating grants and contributions	8,403,559
Capital grants and contributions	3,945,081
General revenues:	
State revenue limit sources	1,007,304
Property taxes	32,607,127
Other general revenues	<u>7,616,249</u>
Total Revenues	<u>54,692,033</u>
Expenses	
Instruction related	34,010,944
Student support services	5,165,471
Administration	4,237,763
Maintenance and operations	4,171,085
Other	<u>3,600,252</u>
Total Expenses	<u>51,185,515</u>
Change in Net Assets	\$ 3,506,518

SUNNYVALE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

This section of Sunnyvale School District's 2002-2003 annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. 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 Sunnyvale School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34.

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

The *Fund Financial Statements* present Governmental activities, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities. The Fund Financial Statements provide a more detailed picture of District's operations than district-wide statements. The *Governmental Fund Statements* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Sunnyvale School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

SUNNYVALE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

The difference between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools are important components in this evaluation.

The *Statement of Net Assets* and the *Statement of Activities* are derived from the District governmental activities.

Governmental activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the 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, 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 other sources.

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.

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 the funds managed for associated student body activities. The District's *fiduciary* activities are reported in separate *Statements of Fiduciary Net Assets*. Management excludes 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.



Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Education
Sunnyvale School District
Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sunnyvale School District (the District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sunnyvale School District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 40, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek Trine Day & Co. LLP

San Jose, California
September 25, 2003

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SUNNYVALE SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES — Other District Funds" herein.

SUNNYVALE SCHOOL DISTRICT Other District Funds

<u>Funds</u>	<u>June 30, 2003, Balance^(a)</u>	<u>June 30, 2004, Estimated Balance^(b)</u>	<u>June 30, 2005, Estimated Balance^(c)</u>
Special Revenue Funds			
Cafeteria	\$ 594,781	\$ 594,781	\$594,781
Child Development	0	0	0
Deferred Maintenance	70,989	170,990	130,000
Special Reserve	1,949,895	1,999,895	0
Subtotal for Special Revenue Funds	2,615,665	2,765,666	724,781
Capital Project Funds			
Building	1,109,423	0	0
Capital Facilities	27,912	0	40,000
Subtotal for Capital Project Funds	1,137,335	0	40,000
Total Alternate Liquidity	\$3,753,000	\$2,765,666	\$764,781

^(a) Audited Financial Statement.

^(b) Second Interim Report adopted on March 4, 2004.

^(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through April 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$5,000,000 in tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during, or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "SUNNYVALE SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Subsequent to the date of the Audited Financial Statements, June 30, 2003, the District issued 2003 Refunding General Obligation Bonds (the "Refunding Bonds") in the amount of \$8,715,000 on December 1, 2003. The proceeds from the sale of the Refunding Bonds were used to advance refund the 2005 to 2020 maturities of the General Obligation Bonds, Series 1996A.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.62 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

SUNNYVALE SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Cash Balance, July 1, 2004	\$ 3,563,558
Projected 2004/05 Cash Receipts (Including Note Proceeds)	50,220,661
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(45,428,464)</u>
Balance	\$ 8,355,755
Note Repayment	\$ 5,149,583
NOTE COVERAGE RATIO	1.62 : 1

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

SUNNYVALE SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Unaudited Actuals 2002/03 ^(b)	Estimated Actuals 2003/04 ^(c)	Projected Budget 2004/05 ^(c)
Revenues					
Revenue Limit Sources			\$31,303,578	\$29,270,502	\$29,825,726
State Aid	\$ 898,544	\$ 912,547			
Property Taxes	24,337,433	28,317,219			
Federal Revenue	1,285,308	1,273,996	1,566,524	2,261,087	2,049,937
Other State Revenue	9,084,932	7,607,003	6,442,553	6,496,936	6,246,733
Other Local Revenue	7,090,491	6,065,692	6,583,878	6,552,872	6,486,392
Total Revenues	42,696,708	44,176,457	45,896,534	44,581,397	44,608,788
Expenditures					
Certificated Salaries	21,044,072	22,241,143	23,060,169	22,680,054	22,818,154
Classified Salaries	6,928,235	7,247,769	7,851,305	7,279,621	6,924,551
Employee Benefits	5,860,708	6,395,058	7,430,599	8,092,248	8,593,376
Books and Supplies	1,552,680	2,113,452	2,007,489	3,071,797	1,572,172
Services, Other Operating Expenses	4,631,916	4,748,961	5,119,304	5,408,701	4,975,757
Capital Outlay	970,271	562,217	241,751	33,542	28,160
Other Outgo	58,653	293,722	285,114	617,833	375,901
Total Expenditures	41,046,535	43,602,322	45,995,731	47,183,796	45,288,071
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	83,392	0	0	106,565	545,435
Interfund Transfers Out / Other Uses	0	(220,737)	(25,454)	(100,000)	(125,000)
Total Other Financing Sources/(Uses)	83,392	(220,737)	(25,454)	6,565	420,435
Excess of Revenues Over (Under) Expenditures	1,733,565	353,398	(124,651)	(2,595,834)	(258,848)
Beginning Fund Balance	1,182,316	2,915,881	3,269,279	3,144,628	548,794
Ending Fund Balance	\$ 2,915,881	\$ 3,269,279	\$ 3,144,628	\$ 548,794	\$ 289,946

(a) Audited Financial Statements.

(b) Unaudited Financial Statement.

(c) Second Interim Report adopted on March 4, 2004.

SUNNYVALE SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$ 898,544	2.10%
2001/02 ^(a)	912,547	2.07
2002/03 ^(b)	31,303,578	68.20
2003/04 ^(c)	29,270,502	65.66
2004/05 ^(c)	29,825,726	66.86

- (a) Audited Financial Statements.
(b) Unaudited Financial Statement.
(c) Second Interim Report adopted on March 4, 2004.
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The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no change in the number of full-time equivalent certificated or full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 1% negotiated salary increase for certificated employees, and a 1% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .75% in the 2004/05 fiscal year.

SUNNYVALE SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$33,833,015	82.43%
2001/02 ^(a)	35,883,970	82.30
2002/03 ^(b)	38,342,073	83.36
2003/04 ^(c)	38,051,923	80.65
2004/05 ^(c)	38,336,081	84.65

- a) Audited Financial Statements.
(b) Unaudited Financial Statement.
(c) Second Interim Report adopted on March 4, 2004.
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Labor Relations

The District employs 353 full-time equivalent certificated and 214 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

SUNNYVALE SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
California School Employees Association	260	June 30, 2006
Sunnyvale Education Association	338	June 30, 2006

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Santa Clara County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX E – SANTA CLARA COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Because the District's property tax revenue exceed its calculated revenue limit, the District is considered a basic aid district. Basic aid districts receive no additional State aid beyond a basic aid entitlement of \$120 per A.D.A. Under current law, basic aid districts retain all local property tax revenues, and, as a result, receive more revenue limit income than is their revenue limit entitlement. The District expects a 2.00% increase in revenues from property taxes in fiscal year 2004/05. See "**GENERAL SCHOOL DISTRICT INFORMATION– State Funding of Education**," "**GENERAL SCHOOL DISTRICT INFORMATION– Basic Aid Districts**" and "**– Average Daily Attendance**" herein.

GENERAL AND FINANCIAL INFORMATION

Introduction

The Sunnyvale School District (the "District") provides educational services to residents located primarily in the City of Sunnyvale in Santa Clara County. The District serves a population of approximately 78,947.

The District currently operates eight elementary schools (K-5), two middle schools (6-8) and one community day school (7-8).

The District's 2003/04 pupil-teacher ratios are 19.34:1 for grades K-8.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. Joseph Rudnicki has served in this capacity since 1997.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

SUNNYVALE SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	5,666
2001/02 ^(b)	5,665
2002/03 ^(b)	5,739
2003/04 ^(c)	5,813
2004/05 ^(c)	5,813

^(a) Includes grades K-8, opportunity schools, home and hospital, and community day school.

^(b) Audited Financial Statements.

^(c) Estimated – Second Interim Report adopted on March 4, 2004.

SUNNYVALE SCHOOL DISTRICT

BOARD OF EDUCATION

Nancy Newkirk
President

Bob Roberts
Vice President

Phyllis Fowler
Clerk

Jeff Arnett
Member

Linda Kilian
Member

DISTRICT ADMINISTRATION

Dr. Joseph Rudnicki
Superintendent

Dr. Benjamin Picard
Deputy Superintendent

Nellie Hungerford
Director of Fiscal Services

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Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$2,755,253, \$2,441,520 and \$2,212,031 respectively, and equal 100% of the required contributions for each year.

NOTE 11: COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. If the review on audit discloses exceptions, the District may incur a liability to grantor agencies.

NOTE 12: TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 3, 2002, the District issued \$9,895,000 in Tax and Revenue Anticipation Notes maturing on July 3, 2003, with an interest rate of 3%. The TRANS are a general obligation of the District, and are payable from revenues and cash receipts to be generated by the District. There are no contractual obligations related to the issuance other than the TRANS agreement. The funds were used to supplement cash flow. Interest expense of \$296,850 was accrued as of June 30, 2003, on this note.

NOTE 13: SUBSEQUENT EVENTS

The District issued \$11,895,000 in tax revenue anticipation notes dated July 3, 2003. The notes mature on July 6, 2004. The notes were sold to supplement cash flow.

NOTE 8: CHANGES IN GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2003 is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
General obligation Bonds Payable - 1997 Series	\$ 17,045,000		\$ 345,000	\$ 16,700,000
General Obligation Bonds Payable - 1998 Series	14,365,000		295,000	14,070,000
Bond Premium - 1998 Series	24,785		1,032	23,753
General Obligation Bonds Payable - 1999 Series	11,650,000		220,000	11,430,000
General Obligation Bonds Payable - 2002 Series	30,000,000			30,000,000
Bond Premium - 2002 Series	58,000		2,000	56,000
General Obligation Bonds Payable - 2003 Series		58,000,000		58,000,000
Bond Premium - 2003 Series		386,746		386,746
Compensated Absences Payable	654,870	81,995		736,865
	<u>\$ 73,797,655</u>	<u>\$ 58,468,741</u>	<u>\$ 863,032</u>	<u>\$ 131,403,364</u>

NOTE 9: JOINT VENTURES (Joint Powers Agreements)

The Sequoia Union High School District participates in one joint venture under a Joint Powers Agreement (JPA). The San Mateo County Schools Insurance Group (SMCSIG) arranges for and provides property, liability, and workers' compensation for its members. The relationship between (SMCSIG) and the District is such that the JPA is not a component unit of the District for financial reporting purposes.

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

Condensed financial information of SMCSIG as of June 30, 2003 and for the period then ended are summarized as follows:

Total Assets	\$ 9,688,958
Total Liabilities	6,010,253
Net Assets	3,678,705
Total Revenues	25,039,388
Total Expenses	26,390,298
Net Change in Net Assets	(1,350,910)

NOTE 10: EMPLOYEE RETIREMENT SYSTEMS

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

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 were 2.894% during July 2002 to January 2003 and 2.771% during February 2003 to June 2003. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$403,103, \$0 and \$0 respectively, and equal 100% of the required contributions for each year.

STRS

Plan Description

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

The annual requirements to amortize Series 1997, General Obligation Bonds Payable, outstanding as of June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 360,000	\$ 928,110	\$ 1,288,110
2005	380,000	910,560	1,290,560
2006	395,000	891,940	1,286,940
2007	415,000	872,585	1,287,585
2008	435,000	852,250	1,287,250
2009-2013	2,535,000	3,906,450	6,441,450
2014-2018	3,320,000	3,151,980	6,471,980
2019-2023	4,370,000	2,117,310	6,487,310
2024-2026	4,490,000	703,595	5,193,595
Totals	\$ 16,700,000	\$ 14,334,780	\$ 31,034,780

The annual requirements to amortize Series 1998, General Obligation Bonds Payable, outstanding as of June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 305,000	\$ 713,575	\$ 1,018,575
2005	315,000	699,240	1,014,240
2006	330,000	684,435	1,014,435
2007	345,000	668,925	1,013,925
2008	360,000	652,710	1,012,710
2009-2013	2,065,000	2,994,005	5,059,005
2014-2018	2,630,000	2,442,200	5,072,200
2019-2023	3,380,000	1,689,145	5,069,145
2024-2027	4,340,000	706,912	5,046,912
Totals	\$ 14,070,000	\$ 11,251,147	\$ 25,321,147

Bonds Premium as of June 30, 2003

23,753

Book Balance

\$ 14,093,753

The annual requirements to amortize Series 1999, General Obligation Bonds Payable, outstanding as of June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 230,000	\$ 574,387	\$ 804,387
2005	240,000	563,462	803,462
2006	250,000	552,062	802,062
2007	265,000	540,187	805,187
2008	275,000	527,600	802,600
2009-2013	1,590,000	2,422,387	4,012,387
2014-2018	2,005,000	1,986,000	3,991,000
2019-2023	2,550,000	1,432,581	3,982,581
2024-2028	3,265,000	713,400	3,978,400
2029	760,000	38,950	798,950
Totals	\$ 11,430,000	\$ 9,351,016	\$ 20,781,016

The annual requirements to amortize Series 2002, General Obligation Bonds Payable, outstanding as of June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 255,000	\$ 1,797,454	\$ 2,052,454
2005	520,000	1,522,825	2,042,825
2006	545,000	1,486,425	2,031,425
2007	575,000	1,448,275	2,023,275
2008	605,000	1,408,025	2,013,025
2009-2013	3,500,000	6,425,525	9,925,525
2014-2018	4,365,000	5,562,840	9,927,840
2019-2023	5,495,000	4,435,982	9,930,982
2024-2028	7,050,000	2,920,312	9,970,312
2029-2031	7,090,000	931,468	8,021,468
Totals	\$ 30,000,000	\$ 27,939,131	\$ 57,939,131

Bonds Premium as of June 30, 2003

56,000

Book Balance

\$ 30,056,000

The annual requirements to amortize Series 2003, General Obligation Bonds Payable, outstanding as of June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$	\$	\$
2005		3,848,559	3,848,559
2006	740,000	2,716,630	3,456,630
2007	760,000	2,699,980	3,459,980
2008	795,000	2,680,980	3,475,980
2009-2013	4,505,000	13,003,725	17,508,725
2014-2018	5,410,000	12,073,375	17,483,375
2019-2023	6,680,000	10,789,925	17,469,925
2024-2028	9,795,000	8,967,250	18,762,250
2029-2032	29,315,000	4,810,500	34,125,500
Totals	\$ 58,000,000	\$ 61,590,924	\$ 119,590,924

Bonds Premium as of June 30, 2003

386,746

Book Balance

\$ 58,386,746

NOTE 5: INTERFUND TRANSACTIONS

Due From/Due To Other Funds

Interfund transactions are reported as either loans, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2003, interfund receivables and payables were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 628,426	\$ 164,614
Building Fund	708,796	386,043
Nonmajor Governmental Funds	264,511	1,051,076
Totals	\$ 1,601,733	\$ 1,601,733

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2002-2003 were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$	\$ 1,362,330
Adult Education Fund		160,000
Cafeteria Fund	450,000	
Deferred Maintenance	54,292	
Building Fund		98,684
Special Reserve Fund for Capital Outlay	1,018,038	
Bond Interest and Redemption Fund	98,684	
Total	\$ 1,621,014	\$ 1,621,014

Transfer of \$450,000 from the General Fund to the Cafeteria Fund was made to offset operating deficit in Cafeteria Fund.

Transfer of \$54,292 from the General Fund to the Deferred Maintenance Fund was made to support state match requirements.

Transfer of \$1,018,038 from the General Fund to the Special Reserve Fund for Capital Outlay was made to fund construction in progress.

Transfer of \$98,684 from the Building Fund to the Bond Interest and Redemption Fund for principal and interest payments.

NOTE 6: CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2003 is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital assets, not being depreciated				
Land	\$ 2,329,961	\$ 380,675	\$	\$ 2,710,636
Construction in progress		33,695,569		33,695,569
Total capital assets, not being depreciated	2,329,961	34,076,244		36,406,205
Capital assets being depreciated				
Buildings and Building Improvements	139,195,977			139,195,977
Other Improvements	15,741,818			15,741,818
Equipment	3,184,787			3,184,787
Total capital assets, being depreciated	158,122,582			158,122,582
Less accumulated depreciation for				
Buildings and Building Improvements	35,099,863	2,632,360		37,732,223
Other Improvements	2,608,034	687,263		3,295,297
Equipment	2,031,607	212,291		2,225,898
Total accumulated depreciation	39,721,504	3,531,914		43,253,418
Total capital assets, being depreciated, net	118,401,078	(3,531,914)		114,869,164
Governmental activities capital assets, net	\$ 120,731,039	\$ 30,544,330	\$	\$ 151,275,369

NOTE 7: GENERAL OBLIGATION BONDS PAYABLE

The outstanding general obligation bonded debt of the District as of June 30, 2003 are summarized:

Year of Issuance	Interest Rate	Maturity Date	Amount of Original Issue	Amount Outstanding July 1, 2002	Redeemed Current Year	Premium Amortization	Amount Outstanding June 30, 2003
1997	4.875-6.25%	2026	\$ 18,000,000	\$ 17,045,000	\$ 345,000	\$	\$ 16,700,000
1998	4.5-5.25%	2027	15,029,949	14,389,785	295,000	1,032	14,093,753
1999	4.75-5.125%	2029	12,000,000	11,650,000	220,000		11,430,000
2002	4.00-7.00%	2031	30,058,000	30,058,000		2,000	30,056,000
2003	2.25-5.00%	2032	58,386,746				58,386,746
Totals			\$ 133,474,695	\$ 73,142,785	\$ 860,000	\$ 3,032	\$ 130,666,499

method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's base revenue limit is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

9. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates.

NOTE 2: CASH AND INVESTMENTS

Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Mateo County Treasury as part of the common investment pool (\$118,746,577) as of June 30, 2003. The District determined that the fair value approximates cost; therefore, no adjustment was made to reflect the difference.

Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit and repurchase or reverse repurchase agreements.

Cash on Hand in Banks and in Revolving Fund

Cash balances on hand and in banks and in the revolving fund are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized, except those which exceeds the maximum insured levels of the FDIC.

NOTE 3: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2003, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Adult Education:	
Certificated salaries	\$ 229,057
Services and other operating expenditures	1,789
Cafeteria:	
Classified Salaries	48,590
Employee Benefits	83,192

The appropriations for the above cost were based on projections that were exceeded by actual expenditures. The program managers will monitor program costs and will make appropriate budget revisions to assure that expenditures are within appropriations limits.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2003 consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Federal government:					
Federal programs	\$ 740,868	\$ 87,817	\$	\$	\$ 828,685
State government:					
State aid revenue limit	122,261	239,949			362,210
State programs	2,039,194	2,869			2,042,063
Lottery	451,097				451,097
Other		6,392			6,392
Total state government	<u>3,353,420</u>	<u>337,027</u>			<u>3,690,447</u>
Interest	168,095	5,568	825,444		999,107
Miscellaneous	1,031,079	171,343	19,489	23,541	1,245,452
Totals	<u>\$ 4,552,594</u>	<u>\$ 513,938</u>	<u>\$ 844,933</u>	<u>\$ 23,541</u>	<u>\$ 5,935,006</u>

for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

3. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Asset Class	Examples	Estimated Useful Life in Years
Land		
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
Machinery and tools	Shop & maintenance equipment, tools	5-10
Kitchen equipment	Appliances	5-10
Custodial equipment	Floor scrubbers, vacuums, other	5-10
Business machines	Fax, duplicating & printing equipment	5-10
Audio visual equipment	Projectors, cameras (still & digital)	5-10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	5-10
Licensed vehicles	Buses, other on-road vehicles	8
Grounds equipment	Mowers, tractors, attachments	5-10

4. Deferred Revenue

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

5. Compensated Absences

All vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognized bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

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

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

8. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate

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

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 following debt service fund is maintained by the County Treasurer for the District use.

- 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.

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:

- The State School Building Lease-Purchase is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).
- 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).
- The Special Reserve Fund for Capital Outlay Projects exists primarily for the accumulation of General Fund monies for capital outlay purposes.
- The County School Facilities Fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants.

Fiduciary Funds:

- *Expendable Trust Funds* are used to account for assets held by the District as trustee. The District maintains four expendable trust funds, one for each school, except for Redwood High. The funds are all Scholarship Funds, which are used to provide financial assistance to students of the District.
- Agency Funds account for resources held for others in a custodial capacity. The following fund is in use:

Student Body Funds are used to account for the activities of student groups.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund in the financial statements.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

H. Encumbrances

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

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized, except those which exceeds the maximum insured levels of the FDIC.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Mateo County Treasury. The county pools these funds with those of other Districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

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

2. Stores Inventories and Prepaid Expenditures

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

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds are accounted for on the modified accrual basis.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprised of assets, liabilities, fund equity (or retained earnings), revenues and expenditures or expenses as appropriate. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The fund types and funds utilized by the District are described below:

Major Governmental Funds:

The General Fund serves as the general operating fund. It is used to account for all financial resources of the District except those required to be accounted for in another fund.

The Building Fund is used to account for major governmental capital facilities and buildings from the sale of bond proceeds.

Non-Major Governmental Funds:

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

- The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs.
- The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the District's cafeterias.
- The Deferred Maintenance Fund is used for the purpose of major repairs or replacement of District property.

**SEQUOIA UNION HIGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

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

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-

wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of \$44,851,904, for net asset balance of \$112,528,569 at June 30, 2002 on the government-wide financial statements.

D. Basis of Presentation

The government-wide financial statements (i.e. statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

SEQUOIA UNION HIGH SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2003

	Expendable Trust Scholarship Funds	Agency Funds	Total
Assets			
Cash and investments	\$ 183,322	\$ 701,266	\$ 884,588
Total Assets	<u>183,322</u>	<u>701,266</u>	<u>884,588</u>
Liabilities			
Due to students groups	<u> </u>	701,266	<u>701,266</u>
Total Liabilities	<u> </u>	<u>701,266</u>	<u>701,266</u>
Net Assets			
Undesignated fund balance	<u>183,322</u>	<u> </u>	<u>183,322</u>
Total Net Assets	<u>\$ 183,322</u>	<u>\$ </u>	<u>\$ 183,322</u>

SEQUOIA UNION HIGH SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2003

	Expendable Trust Scholarship Fund
Additions	
Other Local	\$ 49,643
Deductions	
Financial assistance to students	<u>33,915</u>
Change in net assets	15,728
Net Assets - July 1, 2002	<u>167,594</u>
Net Assets - June 30, 2003	<u><u>183,322</u></u>

SEQUOIA UNION HIGH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

SEQUOIA UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Revenue limit sources				
State apportionments	\$ 1,698,206	\$	\$ 2,307,289	\$ 4,005,495
Local sources	54,443,951			54,443,951
Federal	2,635,208		446,596	3,101,804
Other state	7,773,016		4,342,844	12,115,860
Other local	<u>6,036,897</u>	<u>2,090,355</u>	<u>8,526,673</u>	<u>16,653,925</u>
Total revenues	<u>72,607,278</u>	<u>2,090,355</u>	<u>15,623,402</u>	<u>90,321,035</u>
Expenditures				
Instruction	36,992,860		1,374,718	38,367,578
Instruction-Related Services	9,014,339		935,830	9,950,189
Pupil Services	8,370,956		2,416,081	10,787,037
Community Services	76,506			76,506
General Administration	6,049,672		131,563	6,181,235
Plant Services	7,729,352	22,426,400	11,839,969	41,995,721
Ancillary Services	687,596			687,596
Other Outgo	1,270,620			1,270,620
Transfers Between Agencies				
Debt Service - Principal			860,000	860,000
Debt Service - Interest	296,850		3,263,756	3,560,606
All other outgo	<u>208,875</u>			<u>208,875</u>
Total expenditures	<u>70,697,646</u>	<u>22,426,400</u>	<u>20,821,917</u>	<u>113,945,963</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,909,632</u>	<u>(20,336,045)</u>	<u>(5,198,515)</u>	<u>(23,624,928)</u>
Other financing sources (uses):				
Operating transfers in			1,621,014	1,621,014
Proceeds from sale of bonds		58,322,200		58,322,200
Operating transfers out	<u>(1,362,330)</u>	<u>(98,684)</u>	<u>(160,000)</u>	<u>(1,621,014)</u>
Total other financing sources	<u>(1,362,330)</u>	<u>58,223,516</u>	<u>1,461,014</u>	<u>58,322,200</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	547,302	37,887,471	(3,737,501)	34,697,272
Fund balances, July 1, 2002	<u>5,683,699</u>	<u>44,720,005</u>	<u>17,272,961</u>	<u>67,676,665</u>
Fund balances, June 30, 2003	<u>\$ 6,231,001</u>	<u>\$ 82,607,476</u>	<u>\$ 13,535,460</u>	<u>\$ 102,373,937</u>

The accompanying notes are an integral part of these financial statements

Total net change in fund balances - governmental funds	\$ 34,697,272
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay (\$ 34,076,244) exceeds depreciation expense (\$ 3,331,914) in the period.	30,544,330
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect issuance costs and premiums when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
General Obligation Bonds, Series 2003	\$ (58,000,000)
Bonds Premium	(386,746)
Bonds Issuance Cost	210,000
Amortization of premium - 1998 bonds	1,032
Amortization of bond issuance cost - 1998 bonds	(1,014)
Amortization of net premium - 2002 bonds	2,000
Amortization of bond issuance cost - 2002 bonds	<u>(5,221)</u>
	(58,179,949)
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure.	
Payment of bonds payable, series 97	\$ 345,000
Payment of bonds payable, series 98	295,000
Payment of bonds payable, series 99	<u>220,000</u>
	860,000
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$ 81,995	(81,995)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized 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.	<u>(1,786,504)</u>
Total change in net assets - governmental activities	\$ 6,053,154

The accompanying notes are an integral part of these financial statements

SEQUOIA UNION HIGH SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

SEQUOIA UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2003

	General	Building	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury (Note 2)	\$ 18,757,310	\$ 84,783,983	\$ 15,205,284	\$ 118,746,577
Cash On Hand And In Banks	14,864		198	15,062
Cash in Revolving Fund (Note 2)	7,500		5,050	12,550
Accounts Receivable (Note 4)	2,353,746	721,184	293,661	3,368,591
Due from Grantor Governments (Note 4)	2,198,848		367,567	2,566,415
Due from other funds (Note 5)	628,426	708,796	264,511	1,601,733
Stores Inventories (Note 1 I2)	399,646		23,321	422,967
Other Current Assets	2,122			2,122
Total Assets	\$ 24,362,462	\$ 86,213,963	\$ 16,159,592	\$ 126,736,017
LIABILITIES:				
Accounts Payable	\$ 5,233,798	\$ 3,220,444	\$ 1,492,814	\$ 9,947,056
Due to Grantor Governments	1,261,563		43	1,261,606
Due to other funds (Note 5)	164,614	386,043	1,051,076	1,601,733
Tax revenue anticipation note (Note 12)	9,895,000			9,895,000
Deferred Revenues (Note 1 I4)	1,576,486		80,199	1,656,685
Total Liabilities	18,131,461	3,606,487	2,624,132	24,362,080
Fund Balances				
Reserved Fund Balances				
Reserved For Revolving Fund	7,500		5,050	12,550
Reserved For Stores Inventories	399,646		23,322	422,968
Reserved For Prepaid Items	2,122			2,122
Reserved For Legally Restricted Balance	635,130			635,130
Designated Fund Balances				
Designated For Economic Uncertainties	2,991,067			2,991,067
Other Designated Fund Balances	2,195,536		11,676	2,207,212
Unreserved, Undesignated Fund Balances	82,607,476	13,495,412	96,102,888	
Total Fund Balances	6,231,001	82,607,476	13,535,460	102,373,937
Total Liabilities and Fund Balances	\$ 24,362,462	\$ 86,213,963	\$ 16,159,592	\$ 126,736,017

Total fund balances - governmental funds	\$ 102,373,937
Amounts reported for governmental activities are not short-term financial resources and therefore are not reported as assets in governmental funds. The historical acquisition cost of the assets is \$194,528,787 and the accumulated depreciation is \$43,253,418	151,275,369
To recognize accrued interest at year end	(4,043,712)
Bond issuance cost are reported as prepaid expenditures in government wide statement of net assets while these expenditures are recognized as current year's expenditures in the year of issuance in the governmental funds. These bond issuance costs are amortized over the life of the bonds.	379,493
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities including the premium at year-end consist of:	
General obligation bonds payable	\$ 130,666,499
Compensated absences	736,865
Total net assets - governmental activities	\$ 118,581,723

SEQUOIA UNION HIGH SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
ASSETS:	
Cash in County Treasury (Note 2)	\$ 118,774,189
Accounts Receivable (Note 4)	3,368,591
Due from Grantor Governments (Note 4)	2,566,415
Stores Inventories (Note 1 I2)	422,967
Other Current Assets	2,122
Bond Issuance Costs (Note 1 I6)	379,493
Capital Assets:	
Land (Note 6)	2,710,636
Other Improvements, net (Note 6)	11,712,229
Building and Building Improvements, net (Note 6)	101,463,754
Infrastructures, net (Note 6)	734,292
Equipment, net (Note 6)	958,889
Construction in Progress (Note 6)	33,695,569
Total Assets	276,789,146
LIABILITIES:	
Accounts Payable	9,947,056
Due to Grantor Governments	1,261,606
Interest Payable	4,043,712
Deferred Revenues (Note 1 I4)	1,656,685
Tax revenue anticipation note (Note 12)	9,895,000
Long-term Liabilities:	
Due within one year	
General obligation bonds payable (Note 7 & 8)	1,154,157
Compensated absences payable (Note 8)	736,865
Due in more than one year	
General obligation bonds payable (Note 7 & 8)	129,512,342
Total Liabilities	158,207,423
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	20,608,870
Restricted for:	
Capital Projects	82,607,476
Debt Services	4,039,037
School Programs	4,342,765
Other Purposes	4,788,039
Unrestricted	2,195,536
Total Net Assets	\$ 118,581,723

The accompanying notes are an integral part of these financial statements

SEQUOIA UNION HIGH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 38,449,573	\$ 112,770	\$ 7,099,072	\$ 4,274,043	\$ (26,963,688)
Instruction-Related Services	9,950,189	52,866	3,017,817		(6,879,506)
Pupil Services	10,787,037	3,252,441	2,054,841		(5,479,735)
Community Services	76,506				(76,506)
General Administration	6,144,403		445,054		(5,699,349)
Plant Services	7,956,309	181,736	514,720		(7,259,853)
Ancillary Services	687,596	5,142	2,556		(679,898)
Other Outgo	1,479,495	191,960	621,160		(666,375)
Interest on long-term debt	5,320,128				(5,320,128)
Depreciation - Unallocated	3,531,914				(3,531,914)
Total governmental activities	\$ 84,383,150	\$ 3,796,915	\$ 13,755,220	\$ 4,274,043	(62,556,972)
General Revenues:					
Taxes and subventions:					
Taxes levied for general purposes					54,443,960
Taxes levied for debt service					5,082,087
Taxes levied for other specific purposes					905,157
Federal and state aid not restricted to specific purposes					3,337,633
Interest and investment earnings					1,469,320
Transfers from other Agencies					415,250
Miscellaneous					2,956,739
Total General Revenues					68,610,126
Change in net assets					6,053,154
Net Assets - Beginning					112,528,569
Net Assets - Ending					\$ 118,581,723

The accompanying notes are an integral part of the financial statements

In light of the extremely critical condition of the State of California's finances, the \$6,231,002 total general fund balance (8.6% of a \$72.05 million dollar budget) should be construed as a reasonable level of assurance that essential programs and services will be continued into and throughout the 2004 fiscal year. It must be noted and cannot be overstated that the March 2, 2004 bond measure controls the immediate fate of K-14 education in California. Therefore, no statements regarding events or conditions beyond March 2nd will be made.

Capital Asset and Debt Administration

Capital Assets at Year End net of Depreciation

At June 30, 2003, the District had \$151,275,369 in a broad range of capital assets, including land, buildings and furniture and equipment. The District uses \$5,000 as its capitalization threshold.

The amount shown for construction in progress represents expenditures for projects currently in the construction phase. Depreciation will not be taken on the assets until the project is completed.

Table 7: Capital Assets

Land	\$	2,710,636
Other Improvements		11,712,229
Buildings and Building Improvements		101,463,754
Infrastructures		734,292
Equipment		958,889
Construction in Progress		<u>33,695,569</u>
 Total Capital Assets	 \$	 <u>151,275,369</u>

Table 8: General Obligation Bonds

	2003	2002
General Obligation Bonds	\$ 73,142,785	\$ 130,666,499
Compensated Absences	<u>654,870</u>	<u>736,865</u>
 Total	 \$ <u>73,797,655</u>	 \$ <u>131,403,364</u>

Outstanding debt increased by a net amount of \$57,605,709 during the fiscal year. This increase primarily results from issuance of \$50 million in General Obligations Bonds approved by the District voters. The funds received from the Bond are being used for the construction of buildings and renovation of existing facilities.

Economic Factors and Next Year's Budget rates

The State of California is faced with major budget shortfalls for the 2004 fiscal year. Sequoia Union HSD is a "Basic Aid" district which has insulated us from almost all of budget uncertainties facing revenue limit districts. Nonetheless, the District has absorbed the following cuts in aid from the state: \$870,000 less in "basic aid", \$598,000 in pay backs to the state for revenue limit reduction, termed "equal pain", and other, specific categorical cuts that reduced the programs.

The district had to reduce programs by \$2.2 million to balance the budget and have a 3% reserve for economic uncertainties, while creating a new reserve of \$870,000 for property tax refunds and additional reserves for new expenses such as: charter school payments (\$1,307,536) and "equal pain" payments (\$598,000).

Factors impacting the 2003-04 district budget include the following:

- Estimated student enrollment of 8,088. There is no growth.
- Reserve for charter school obligations of \$1,307,536.
- Elimination of Class Size Reduction at the 9th grade for Mathematics and English
- A zero percent adjustment for salary and necessary benefit adjustment for certificated or classified staff.
- Utilities have been increased by 5 % due to inflation.
- Worker's compensation rates have been increased by 35 +% over the previous year for a total cost of \$1,285,679.
- Health and Welfare benefits are expected to increase 15% to more than \$5,000,000.

Contacting the District Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Mr. Edward La Vigne, Assistant Superintendent Administrative Services for the Sequoia Union High School District, 480 James Avenue, Redwood City, CA 94062.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Table 6: District's Fund Balances

	Fund Balance June 30, 2002	Fund Balance June 30, 2003	Increase/ Decrease
General	\$ 5,683,699	\$ 6,231,001	\$ 547,302
Building	44,720,005	82,607,476	37,887,471
Cafeteria	76,825	26,306	(50,519)
Deferred Maintenance	204,364	18,637	(185,727)
Adult Education	296,495	261,941	(34,554)
Bond Interest & Redemption	2,516,990	4,039,037	1,522,047
State School Bldg. Lease- Purchase	106,437	164,939	58,502
Child Development Fund	416	416	
Capital Facilities	1,043,546	1,761,287	717,741
County School Facility	4,083,588	4,185,433	101,845
Capital Outlay Projects	8,944,300	3,077,464	(5,866,836)
Total	\$ 67,676,665	\$ 102,373,937	\$ 34,697,272

As the District completed this year, our governmental Funds reported a combined fund balance of \$102,373,937, which is \$34,697,272 increase from last year. The change in the fund balance for the building fund is primarily due to funds left over from the issuance of \$50 million in general obligation bonds. The additional funds remain in the building fund invested account and are reserved for future funding of the projects. Of the District's eleven governmental funds, six had revenues that exceeded expenditures in 2003 which contributed to the overall increase in combined fund balance. The funds showing deficit had adequate reserves to cover their shortfalls.

General Fund Budgetary Highlights

The District's 2002/2003 General Fund operating budget was adopted by the Governing Board in June of 2002. As adopted, projected expenditures and other financing uses totaled \$73,511,163. Budgeted revenues totaled \$73,645,829, with expenditures projected to exceed revenues by approximately \$134,666.

There were several formal revisions made to the budget during the year. These revisions fell into three main categories:

1. Increases and decreases to both estimated income and appropriations due to the receipt of new grant awards or donations as well as adjustments in both State and Federal Program funding levels and deferred income at the State level.

2. The budgeting of carryover balances from prior years. It is district policy to not budget expenditure totals carried over from a prior year until after the unaudited actual balances for that year have been calculated. This practice is in place because pro rata adjustments are frequently made well into the next fiscal year.

3. Increases in appropriations to prevent budget overages.

During the year, Revenue Limit income budgets were increased by approximately \$198,294, while the total budgeted revenues decreased by \$286,398. Budgeted expenditures increased by \$1,105,889. As revised, the final General Fund budget totaled \$74,617,052, with expenditures projected to exceed revenues by \$1,257,621. District reserves were more than adequate to cover this projected shortfall.

While the final budget projected a deficit, the actual results for the year reflected a surplus of approximately \$547,302, with a resulting ending fund balance of over \$6,231,001. Comparing the actual results to the final budget discloses the following regarding this turnaround:

- Revenue Limit income, composed of state aid and local property taxes, totaled \$33,799 less than budget.
- Federal revenue was \$195,477 less than budgeted. Unexpended federal revenue at year-end was deferred and rebudgeted in the following year to allow for the balancing of program revenue with the related expenditures.
- State revenue was \$900,112 less than budgeted. Special Education revenues of \$388,840 are shown in the property tax transfers under Reserve Limit income, but significantly were budgeted under State revenues. In addition unexpended State revenue at year-end was deferred and rebudgeted in the following year to allow for the balancing of program revenue with the related expenditures.
- Other local revenue was \$380,411 more than budgeted, due to local donations the Board has formally received. Unexpended funds from local donations were carried over to the next fiscal year as deferred revenues.
- Certificated salaries were \$332,375 less than budgeted. Unexpended, balances have been carried forward to the next fiscal year in the unrestricted, general fund balance.

The following categories of expenses were greatly impacted when management implemented a spending freeze in January of 2003. The freeze was implemented because the State began to address the ongoing fiscal crisis and announced plans to attach local property tax dollars of "basic aid" Districts in an unprecedented move. Without the fiscal prudence of the spending freeze, the general fund balance would be almost \$2,000,000 less than current totals. All remaining balances in these categories are absorbed into the General Fund balance, restricted or unrestricted depending on origin.

- The books and supplies expenditure category was \$340,940 less than budgeted.
- The services and other operating expenditures category was \$1,189,897 less than budgeted.
- Capital outlay expenditures were \$500,528 less than budgeted.

Taxes levied for other specific purposes	905,157
Federal & State not restricted to specific purposes	3,337,653
Interest and Investment earnings	1,469,320
Other general revenue	3,371,989
Total Revenues	90,436,304
Expenses	
Instruction	38,449,573
Instruction - Related services	9,950,189
Pupil services	10,787,037
Community Services	76,506
General Administration	6,144,403
Plant Services	7,956,309
Other	11,019,133
Total expenses	84,383,150
Increase in Net Assets:	6,053,154
Net Assets beginning of the year	112,528,569
Net Assets End of the year	\$ 118,581,723

Government Activities

For 2003 fiscal year, the total District revenues were \$90,436,304. The total District expenses were \$84,383,150. The difference of \$6,053,154 is the increase in net assets bringing the total net assets at June 30, 2003 to \$118,581,723.

The main source of revenue for the District is the property taxes and Federal and State Categorical grants.

The cost of all governmental activities this year was \$84,383,150. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$60,431,164. The balance was financed by other government agencies and organizations that subsidized certain programs with grants and contributions (\$18,029,263). Those who benefited from the program (\$3,796,915) and other state funds and with all other revenue such as interest and local grants.

In future years, the changes in net assets table will compare the District's revenues and expenses for the audit year with the most recent prior year and an analysis of the difference between the years will be made.

Table 3: Summary of Revenues for Governmental Function

<i>Program revenues:</i>	
Charges for services	\$ 3,796,915
Federal & State Categorical Grants	18,029,263
General revenues	60,431,164
Federal & State formula aid	3,337,653
Other	4,841,309
Total Revenues	\$ 90,436,304

Table 4: Summary of Expenses

Instruction	\$ 38,449,573
Instruction - Related services	9,950,189
Pupil services	10,787,037
Community Services	76,506
General Administration	6,144,403
Plant Services	7,956,309
Other	11,019,133
Total expenses	\$ 84,383,150

Table 5: Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 38,449,573	\$ (26,963,688)
Instruction-Related Services	9,950,189	(6,879,506)
Pupil Services	10,787,037	(5,479,755)
Community Services	76,506	(76,506)
General Administration	6,144,403	(5,699,349)
Plant Services	7,956,309	(7,259,853)
Ancillary Services	687,596	(679,898)
Other Outgo	1,479,495	(666,375)
Interest on long-term debt	5,320,128	(5,320,128)
Depreciation - Unallocated	3,531,914	(3,531,914)
Total government activities	\$ 84,383,150	\$ (62,556,972)

This table displays, by function, the total and net costs of services provided for the 2003 fiscal year. The net cost of services represents the total cost less operating grants and contributions and for revenue received where a charge is made for services provided.

In future years, this table will compare the total and net cost of services for the audit year with the most recent prior year and an analysis of the difference between the years will be made. With this being the first year of reporting, the district's financial results in this format an analysis of the district's cost of services for 2002 fiscal year has not been made making a comparison between the two years not possible.

In the government-wide financial statements, the District's activities are reported as governmental activities. Most of the District's services are included here such as regular and special education, transportation and administration. Funding received from the state of California through the revenue limit, along with categorical and special funding received from the federal and state government fund most of these activities.

REPORTING THE DISTRICTS MOST SIGNIFICANT FUNDS

Fund financial statement

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that certain revenues have been properly used.

Governmental funds - Most of the District's basic services are reported in governmental funds which generally 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statement that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Table 1:

Current and other assets:

Cash	\$ 118,774,189
Receivables	5,935,006
Inventories	422,967
Bond Issuance Costs	379,493
Other current assets	2,122
Subtotal of other assets	<u>125,513,777</u>
Capital assets	<u>151,275,369</u>
Total assets	<u>276,789,146</u>

Long-term debt outstanding	131,403,364
Other liabilities	<u>26,804,059</u>
Total liabilities	<u>158,207,423</u>
Net Assets:	
Invested in capital assets, net of related debt	20,608,870
Restricted	95,777,317
Unrestricted	<u>2,195,536</u>
Total Net Assets	\$ <u>118,581,723</u>

The District's net assets were \$118,581,723 for the fiscal year ended June 30, 2003. Of this amount, \$2,195,536 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 changes in net assets (Table 2) of the District's governmental activities.

The outstanding long-term debt of \$130,666,499 is due to voter approved bond issues in the amount of \$18 million in 1997, \$15 million in 1998, \$12 million in 1999, \$30 million in 2002 and \$58 million in 2003.

The bond loan is paid by property taxes. The District's net assets were \$118,581,723 for the fiscal year ended June 30, 2003.

In future years, this table will compare the District's net assets for the audit year with the most recent prior year and an analysis of the difference between the years will be made. With this being the first year of reporting the District's financial results in this format, a computation of the Districts' total net assets for 2002 fiscal year has not been made, making a comparison between the two years not possible.

Changes in Net Assets

A summary of total district revenues, expenses and changes in net assets is presented in the table below.

Table 2:

Program revenues:	
Charges for services	\$ 3,796,915
Federal & State Categorical Grants	18,029,263
General revenues	
Taxes levied for General purposes	54,443,950
Taxes levied for Debt Service	5,082,054

**SEQUOIA UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2003**

This section of the Sequoia Union High School District's 2002/03 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2003.

This management discussion and analysis should be read in conjunction with the District's financial statements, including notes and supplementary information that immediately follow this section. This is the first year that Sequoia Union High School District is presenting financial statements in accordance with the Governmental Accounting Standards Board (GASB) No. 34. Therefore, certain data is not available for the fiscal year ended June 30, 2002 for comparative analysis. Comparative analysis will be presented in future years.

FINANCIAL HIGHLIGHTS

- Total government wide revenues for 2003 fiscal year was \$90,436,304.
- Expenditures totaled \$84,383,150.
- Net assets increased by \$6,053,154.
- The District issued \$58 million in new general obligation bonds this year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements are government wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operation in more detail than the government wide statements.

The fund financial statements can be further broken down into two types:

- Governmental fund statements which tell how basic services such as regular and special education were financed in the short term, as well as what remains for future spending.
- Fiduciary fund statements, providing information about the financial relationship in which the District acts solely as trustee or agent for the benefit of others to whom the resources belong.

The Statement of Net Assets and the Statement of Activities

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

These two statements report the District's net assets and changes in them. Net assets are the difference between asset and liabilities, which is 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. To assess the overall health of the District, you need to consider additional non-financial factors including the condition of the District's school buildings and other facilities.

Management believes that the GASB 34 rules of implementation seriously understate the true net worth of the District by at least \$160,000,000 and possibly as much as \$800,000,000. The District owns six sites totaling more than 160 acres of real estate in the mid-San Francisco peninsula; some of the most valuable land in California is valued at the acquisition cost. For instance, the 40 contiguous acres of Sequoia High School campus located on the Peninsula's main thoroughfare has a historical value of \$71,000, the purchase cost. Menlo Atherton High School's 40 acres are located between Menlo Park and Atherton, identified by Time magazine only two years ago as the most expensive real estate in America. Similar real values exist for each of the remaining sites. How one can place value on parcels that are approximately 40 contiguous acres is a very open question. The appraised value of the property within the District's boundaries exceeds 39 billion dollars with average annual increases of 5.5% over the last dozen years.

How can the GASB 34 rules propose to add clarity to the discussion of the net worth of the District when they are so obviously flawed?

In addition to the incongruity presented by under valuing land is the very nature of the "school business". Schools are geographically bound to a fixed region and by definition are not mobile. Once a school building is built, it is used far beyond the "normal" 50 year life span in depreciation tables. One measure of confidence in the District's leadership is the public approval of two bond measures with pluralities greater than 68%. Sequoia Union High School District has been a leader in undertaking extensive modernization of our old facilities. The bond monies have been effectively utilized at all six sites to add roofing replacements, new rooms, modernized science rooms, network capability, new and remodeled restrooms, ADA compliance, fire and safety compliance, seismic upgrades, increased electrical capacity and other infrastructure, as well as improvements to parking lots and access roads. The remaining projects fully expend the monies available and will meet most, but not all, needs for the short-term. If substantial student growth occurs and current educational delivery models are employed, then possible additional facilities will need to be constructed. While there is always room for improvement and needs of students change, the District's facilities are in excellent shape AND getting better.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sequoia Union High School District
Redwood City, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sequoia Union High School District (the District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 District as of June 30, 2003, 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.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1c, the District implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2003.

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

Oakland, California
January 15, 2004

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SEQUOIA UNION HIGH SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see “THE NOTES — Other District Funds” herein.

SEQUOIA UNION HIGH SCHOOL DISTRICT Other District Funds

Fund	June 30, 2003, Balance ^(a)	June 30, 2004, Estimated Balance ^(b)	June 30, 2005, Estimated Balance ^(b)
Special Revenue Funds			
Adult Education	\$ 261,941	\$ 261,940	\$ 267,180
Cafeteria	26,306	26,305	26,305
Child Development	416	0	0
Deferred Maintenance	18,637	3,102	130,915
Subtotal for Special Revenue Funds	<u>307,300</u>	<u>291,347</u>	<u>424,400</u>
Capital Project Funds			
Building	82,607,476	40,221,427	16,428,070
Capital Facilities	1,761,287	2,681,042	883,540
County School Facilities	4,185,434	6,040,627	6,040,627
State School Building Lease-Purchase	164,939	0	0
Special Reserve (Capital)	3,077,464	2,762,522	113,522
Subtotal for Capital Project Funds	<u>91,796,600</u>	<u>51,705,618</u>	<u>23,465,759</u>
Total Alternate Liquidity	<u>\$92,103,900</u>	<u>\$51,996,965</u>	<u>\$23,890,159</u>

^(a) Audited Financial Statement.

^(b) Second Interim Report adopted on March 17, 2004.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 3, 2003, the District issued \$11,895,000 tax and revenue anticipation notes due July 6, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "SEQUOIA UNION HIGH SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

On May 1, 2003, the District issued the 2003 General Obligation Refunding Bonds in the amount of \$16,895,000 to refund the General Obligation Bonds, Election of 1996, Series 1997.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.46 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

SEQUOIA UNION HIGH SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 7,235,967
Projected 2004/05 Cash Receipts (Including Note Proceeds)	90,373,183
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(78,105,094)</u>
Balance	\$19,504,056
Note Repayment	\$13,388,917
NOTE COVERAGE RATIO	1.46 : 1

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

SEQUOIA UNION HIGH SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balance

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^(a)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(b)
Revenues					
Revenue Limit Sources:				\$60,799,395	\$63,747,125
State Aid	\$ 1,437,513	\$ 1,379,326	\$ 1,698,206		
Property Taxes	45,703,952	52,719,532	54,443,951		
Federal Revenue	1,872,430	2,201,800	2,655,208	3,192,593	3,192,593
Other State Revenue	9,660,831	10,935,242	7,773,016	5,419,337	5,419,337
Other Local Revenue	9,897,309	3,665,405	6,036,897	4,625,211	4,625,211
Total Revenues	68,572,035	70,901,305	72,607,278	74,036,536	76,984,266
Expenditures					
Certificated Salaries	28,057,620	31,019,025	33,423,007	33,163,638	33,731,638
Classified Salaries	12,321,406	13,982,047	14,422,695	13,758,899	14,034,077
Employee Benefits	9,105,176	9,936,467	11,843,832	13,974,696	15,030,127
Books and Supplies	3,251,455	3,059,863	2,853,180	3,830,710	3,830,710
Services, Other Operating Expenses	6,916,897	6,614,487	6,639,280	8,056,140	8,136,701
Capital Outlay	2,155,214	1,502,372	140,068	721,163	721,163
Other Outgo	0	0	1,375,584	869,007	1,930,679
Total Expenditures	61,807,768	66,114,261	70,697,646	74,374,253	77,415,095
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	(6,895,541)	0	0	0	0
Interfund Transfers Out / Other Uses	(840,351)	(2,631,776)	(1,362,330)	(690,000)	(690,000)
Total Other Financing Sources/(Uses)	(7,735,892)	(2,631,776)	(1,362,330)	(690,000)	(690,000)
Excess of Revenues Over (Under) Expenditures	(971,625)	2,155,268	547,302	(1,027,717)	(1,120,829)
Beginning Fund Balance	4,500,056	3,528,431	5,683,699	6,231,001	5,203,284
Ending Fund Balance	\$ 3,528,431	\$ 5,683,699	\$ 6,231,001	\$ 5,203,284	\$ 4,082,455

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 17, 2004.

SEQUOIA UNION HIGH SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$47,141,465	68.75%
2001/02 ^(a)	54,098,858	76.30
2002/03 ^(a)	56,142,157	77.32
2003/04 ^(b)	60,799,395	82.12
2004/05 ^(b)	63,747,125	82.81

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 17, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects a reduction of one full-time equivalent certificated and no change in the number of full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a .4% negotiated salary increase for certificated employees, and a .4% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by 3.12% in the 2004/05 fiscal year.

SEQUOIA UNION HIGH SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$49,484,202	80.06%
2001/02 ^(a)	54,937,539	83.09
2002/03 ^(a)	59,689,534	84.43
2003/04 ^(a)	60,897,233	81.88
2004/05 ^(b)	62,795,842	81.12

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 17, 2004.

Labor Relations

The District employs 437 full-time equivalent certificated and 266 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

SEQUOIA UNION HIGH SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
American Federation of State, County & Municipal Employees	380	June 30, 2004
Sequoia District Teachers Association	437	June 30, 2006

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the San Mateo County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX D – SAN MATEO COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Because the District's property tax revenue exceed its calculated revenue limit, the District is considered a basic aid district. Basic aid districts receive no additional State aid. Under current law, basic aid districts retain all local property tax revenues, and, as a result, receive more revenue limit income than is their revenue limit entitlement. The District expects a 4.85% increase in revenues from property taxes in fiscal year 2004/05. See "**GENERAL SCHOOL DISTRICT INFORMATION- State Funding of Education,**" "**GENERAL SCHOOL DISTRICT INFORMATION- Basic Aid Districts**" and "**— Average Daily Attendance**" herein.

GENERAL AND FINANCIAL INFORMATION

Introduction

The District is located in the center of the San Francisco Peninsula in San Mateo County. It serves students from eight feed school districts, including Atherton, Belmont, East Palo Alto, Menlo Park, Portola Valley, Redwood City, San Carlos, and Woodside. The District serves a population of approximately 1,978.

The District operates four high schools (9-12), one community day school (9-12), one continuation school, and one adult school.

The District's 2003/04 pupil-teacher ratios are 27.5:1 for grades 9-12.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in staggered elections. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Dr. Patrick R. Gemma has served in this capacity since February 2003.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

SEQUOIA UNION HIGH SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	7,154
2001/02 ^(b)	6,976
2002/03 ^(b)	7,126
2003/04 ^(c)	7,411
2004/05 ^(c)	7,511

^(a) Includes grades 9-12, special education, continuation education, home and hospital and community day school; does not include adult education.

^(b) Audited Financial Statements.

^(c) Estimated - the District.

SEQUOIA UNION HIGH SCHOOL DISTRICT

BOARD OF TRUSTEES

Don Gibson
President

Sarah D. Stewart
Clerk

Gordon Lewin
Member

Olivia Martinez
Member

Lorraine Rumley
Member

ADMINISTRATION

Dr. Patrick R. Gemma
Superintendent

Ed LaVigne
Assistant Superintendent
Administrative Services

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SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2002-03 were 2.894% of payroll for the six months ending December 31, 2002, and 2.771% of payroll for the remaining six months ending June 30, 2003. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$321,332, \$0 and \$0, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7657 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002 and 2001 were \$3,507,172, \$3,273,430 and \$3,181,232, respectively, and equal 100% of the required contributions for each year.

N. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

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

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

O. Leases Receivable

At June 30, 2003, the District was the lessor for the following property leases:

Lessor	2004	2005	2006	2007	2008	Thereafter	Total
Adventure Time	\$ 40,069	\$ 40,285	\$ 40,285	\$ 40,285	\$ 6,711	\$ 0	\$ 167,576
Bay Area Chinese Bible Church	280,579	280,579	280,579	280,579	280,579	581,153	1,864,053
Lawn Maintenance	4,200	0	0	0	0	0	4,200
Carmelot School	80,841	48,382	0	0	0	0	137,303
Challenger School	457,320	457,320	457,320	457,320	457,320	7,774,440	10,061,040
Head of the Bay Christian School	113,064	113,064	113,064	113,064	113,064	372,169	897,489
Redwood Christian Schools	127,847	127,847	127,847	127,847	127,847	255,894	895,629
Seneca Center	128,528	128,528	128,528	128,528	128,528	1,813,384	2,460,984
State of California National Guard	1,000	1,000	1,000	1,000	1,000	2,000	7,000
AT&T Wireless	11,400	11,400	11,400	11,400	11,400	114,000	171,000
PostNet	5,292	5,292	5,292	5,292	5,292	52,920	79,380
Verizon Wireless	15,775	15,775	15,775	15,775	15,775	157,750	236,625
Nextel of California	7,794	7,794	7,794	7,794	7,794	171,468	210,438
	\$ 1,284,807	\$ 1,286,324	\$ 1,189,982	\$ 1,189,982	\$ 1,169,408	\$ 11,275,163	\$ 17,832,727

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

I. Certificates of Deposit

Debt service requirements on certificates of deposit, at June 30, 2003, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2004	\$ 844,123	\$ 251,532	\$ 1,095,655
2005	864,123	231,648	1,095,771
2006	884,123	210,885	1,094,808
2007	904,123	188,367	1,092,490
2008	929,123	164,545	1,093,668
2009-2013	5,035,615	436,882	5,472,297
2014-2018	4,210,774	0	4,210,774
Totals	\$ 13,672,004	\$ 1,483,459	\$ 15,155,463

J. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2003, as follows:

Year Ending June 30:	
2004	\$ 617,050
2005	617,050
2006	617,050
2007	435,804
2008	435,804
2009-2010	653,706
	3,376,464
Less amount representing interest	(581,451)
Present value of net minimum lease payments	\$ 2,795,013

K. Long-Term Obligations

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	\$ 1,353,124	\$ 1,875,161	\$ 433,272	\$ 2,795,013	\$ 481,673
Certificates of participation	14,496,127	0	824,123	13,672,004	844,123
Retiree benefits	275,680	131,250	28,753	380,177	41,687
Compensated absences	832,395	13,758	0	846,153	846,153
Total governmental activities	\$ 16,957,326	\$ 2,020,169	\$ 1,286,148	\$ 17,693,347	\$ 2,193,636

L. Joint Ventures (Joint Powers Agreements)

The District participates in seven joint ventures under joint powers agreements (JPAs). The relationships between the San Lorenzo Unified School District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The Schools Excess Liability Fund (SELF) - SELF arranges for and provides liability insurance in excess of \$1,000,000 for its members.

The South County Transportation Group - An eleven member group providing special education transportation.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The Audio Visual Group - All Alameda County school districts are members. Its function is the repair and maintenance of audio visual equipment.

The Mid Alameda County Special Education Local Plan Area (MACSELPA) - MACSELPA is a four member group providing special education programs.

The Alameda County Schools Insurance Group (ACSIG) - ACSIG arranges for and provides workers' compensation insurance for its members.

The Hayward Area Shoreline Planning Agency (HASPA) - (HASPA) is a five member shoreline environmental protection and education group.

The Eden Area Regional Occupational Program is a four member JPA serving four districts, which provides occupational training for participating students.

Separate financial statements of the JPAs listed above for June 30, 2003 were not available.

The Student Demographic Information Services (SDIS) is an 18 member JPA which provides student attendance software from National Computer Systems for its member. At June 30, 2003, the JPA reported an audited deficit fund balance of \$1,007,328 as follows:

Total Revenues	\$ 10,606
Total Expenditures	128,506
Net Loss	\$ (117,900)

The Northern California Regional Liability Excess Fund (Nor Cal ReLIEF) provides its members the capability of self-funding liability and property claims, pooling and joint purchasing of property and liability insurance. Condensed audited financial statements as of June 30, 2003 are as follows:

Total Assets	\$ 27,149,663
Total Liabilities	18,878,610
Undesignated Fund Balance	22,174,053
Designated Fund Balance	5,997,000

Total Revenues	\$ 23,319,977
Total Expenditures	21,888,273
Revenues in Excess of Expenditures	\$ 1,431,704

The JPAs are governed by boards consisting of a representative from each district. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the boards. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPAs.

M. Employee Retirement Systems

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

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

F. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,388,301	\$ 0	\$ 0	\$ 1,388,301
Total capital assets not being depreciated	<u>1,388,301</u>	<u>0</u>	<u>0</u>	<u>1,388,301</u>
<i>Capital assets being depreciated:</i>				
Buildings	58,845,786	5,125,978	0	61,971,764
Improvements	6,423,029	137,095	0	6,560,124
Equipment	5,397,353	21,302	0	5,418,655
Total capital assets being depreciated	<u>68,666,168</u>	<u>5,284,375</u>	<u>0</u>	<u>73,950,543</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(16,167,541)	(2,880,938)	0	(19,148,479)
Improvements	(4,942,845)	(688,807)	0	(5,631,652)
Equipment	(3,609,583)	(776,527)	0	(4,386,110)
Total accumulated depreciation	<u>(24,719,969)</u>	<u>(4,446,272)</u>	<u>0</u>	<u>(29,166,241)</u>
Total capital assets being depreciated, net	<u>43,946,199</u>	<u>838,103</u>	<u>0</u>	<u>44,784,302</u>
Governmental activities capital assets, net	<u>\$ 45,334,500</u>	<u>\$ 838,103</u>	<u>\$ 0</u>	<u>\$ 46,172,603</u>

Depreciation was charged to function as follows:

Instruction	\$ <u>4,446,272</u>
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G. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2003, consisted of the following:

Due From Other Fund	Due to Other Fund	Amount
General Fund	Special Reserve (Capital Projects) Fund	\$ 4,219
General Fund	Nonmajor Fund - Cafeteria Fund	31,250
General Fund	Nonmajor Fund - Adult Education Fund	9,155
General Fund	Special Reserve (Special Revenue) Fund	1,981
Special Reserve (Capital Projects) Fund	Building Fund	3,182,800
Non-Major Fund - Adult Education Fund	General Fund	50,000
Subtotal Governmental Funds		<u>3,279,385</u>
General Fund	Fiduciary Fund	2,429,860
	Total	<u>\$ 5,709,245</u>

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

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2003, consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Self Insurance Fund	\$ 400,000
Building Fund	Special Reserve (Capital Projects) Fund	3,182,800
Special Reserve (Capital Projects) Fund	General Fund	1,273,135
Special Reserve (Capital Projects) Fund	Deferred Maintenance Fund	370,000
Other Governmental Funds:		
Deferred Maintenance Fund	Special Reserve (Capital Projects) Fund	1,557,136
Special Reserve (Special Revenue) Fund	General Fund	1,981
Cafeteria Fund	General Fund	918
State School Building Fund	Building Fund	3,374
Bond Interest and Redemption Fund	General Fund	1,023
Tax Override Fund	General Fund	19,652
	Total	<u>\$ 6,810,199</u>

H. Postemployment Benefits Other Than Pension Benefits

In addition to the pension benefits described in Note M, the District provides postretirement health care benefits, as established by board policy, to employees who retire from the District on or after attaining age 55 with at least 10 years of service. On June 30, 2003, six retirees met these eligibility requirements.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors.

As of June 30, 2003, the retiree benefits payment were as follows:

Year Ending June 30	Benefit Payment
2004	\$ 41,687
2005	41,687
2006	41,687
2007	41,687
2009-2013	41,687
2014-2018	74,670
2019-2022	67,203
	<u>29,869</u>
	<u>\$ 380,177</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

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

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

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Excess of Expenditures Over Appropriations

As of June 30, 2003, the District recorded no significant expenditures exceeding appropriations.

D. Cash and Investments

Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury as part of the common investment pool (\$10,077,558 as of June 30, 2003). The fair value of the District's portion of this pool as of that date was not provided by the pool sponsor. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$755,368 as of June 30, 2003), agency funds (\$344,290) and in the revolving fund (\$35,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments:

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. These custodial risk categories are as follows:

- Category 1 - Investments that are insured, registered or held by the District or by its agent in the District's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the District's name.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The District's investments at June 30, 2003 are shown below.

Investment	Category			Reported Amount	Fair Value
	1	2	3		
	\$ 0	\$ 10,083,047	\$ 0	\$ 10,083,047	\$ 10,083,047

Investment Accounting Policy

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

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

E. Accounts Receivable/Due From Grantor Governments

Accounts receivable/due from grantor governments at June 30, 2003 consisted of the following:

	General Fund	Building Fund	Special Reserve (Capital Projects) Fund
Federal Government:			
Federal programs	\$ 881,748	\$ 0	\$ 0
State Government:			
Categorical aid programs	1,645,659	0	0
Special allowance	1,942,088	0	0
Total State Revenue	3,587,837	0	0
Local Sources	130,893	81,080	0
Interest	30,867	0	6,691
Totals	\$ 4,831,155	\$ 81,080	\$ 6,691
	Internal Service Fund	Other Governmental Funds	Total
Federal Government:			
Federal programs	\$ 0	\$ 70,414	\$ 952,182
State Government:			
Categorical aid programs	0	46,549	1,692,108
Special allowance	0	138,439	2,080,527
Total State Revenue	0	184,988	3,772,635
Local Sources	0	380,121	572,074
Interest	10,934	1,611	60,103
Totals	\$ 10,934	\$ 617,134	\$ 5,346,974

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Asset Class	Estimated Useful Lives
Site Improvements	20
School Buildings	50
Portable Classrooms	25
Vehicles	8
Office Equipment	20
Computer Equipment	5
Copiers	10
Cafeteria Equipment	15

d. Deferred Revenue

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

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District.

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

f. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

In the fund financial statements, governmental funds recognize premiums and discounts as well as issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

g. Fund Balance Reserves and Designations

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

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

h. Revenue Limit/Property Taxes

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The County is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California "Revenue and Taxation Code". This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

i. Interfund Activity

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

j. Use of Estimates

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

k. Self-Insurance Internal Service Fund

The District is self-insured for up to \$25,000 per claim, for property damage, general liability and automobile liability. The General Fund is charged premiums by the Self-Insurance Fund, which is accounted for as an Internal Service Fund. The District also participates in two joint powers authorities, which provide excess liability and workers' compensation coverage to the District. On the government-wide financial statements, the Internal Service Fund activity is eliminated to avoid doubling of revenues and expenditures.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

7. Measurement Focus, Basis of Accounting

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

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

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

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

8. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

The budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for all governmental funds in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

9. Encumbrances

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

10. Assets, Liabilities, and Equity

a. Deposits and Investments

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

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Alameda County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

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

b. Stores, Inventories and Prepaid Expenses

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

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

c. Capital Assets

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

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocation of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as they are needed.

6. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, internal service and fiduciary funds.

The District reports the following major governmental funds:

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

The Building Fund is used to account for the acquisition of major governmental capital projects from the sale of bond proceeds.

The Special Reserve (Capital Projects) Fund is used to account for special capital projects as determined by the Board.

The Corporation Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

The District reports the following nonmajor funds:

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

- The Adult Education Program is used to account separately for federal, state, and local revenues for adult education programs.
- The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs.
- The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program.
- The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes.
- The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund money for general operating purposes.

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 following nonmajor debt service funds are maintained by the District:

- 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.
- The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. These taxes will continue to be levied until the debt is fully paid.

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 nonmajor capital projects funds:

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

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

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the warrant clearing fund and the student body accounts. The "Due to Other Funds" account within the clearing fund is used to hold dedicated funds for expenses. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represents the combined totals of all schools within the District.

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

A. Summary of Significant Accounting Policies

1. Accounting Policies

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

For the fiscal year ended June 30, 2003, the District implemented the new reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial reporting model has been implemented.

2. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees.

In 1975 certain members of the District's board of education and District employees formed a nonprofit benefit corporation, known as the San Lorenzo Unified School District Financing Corporation, which is organized under Nonprofit Benefit Corporation Law of the State of California. The purpose of the Financing Corporation is to finance the acquisition and construction of school facilities. The Corporation issued Certificates of Participation (COPs), a form of long-term debt, which the District used to finance construction of school facilities.

The District and the Corporation have a financial and operational relationship that meets the reporting entity definition of GASB Statement 14, "The Financial Reporting Entity", for inclusion of the Corporation as a component unit of the District. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependant unit should be reported as part of the other.

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2003, the financial activities of the Corporation have been blended into the financial statements of the District. The Corporation's financial activities are presented in the Financing Corporation Debt Service Fund. COPs issued by the Corporation are included as long-term liabilities in the governmental-wide financial statements.

3. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37 (GASB 37), "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", and GASB Statement No. 38 (GASB 38), "Certain Financial Statement Note Disclosures". GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentations, GASB 34 requires the reporting

SAN LORENZO UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of \$28,612,575, for net assets balance of \$53,357,191 at June 30, 2003 on the government-wide financial statements.

4. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

Fiduciary funds are reported using the economic resources measurement focus.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use 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 under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year end.

SAN LORENZO UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2003

EXHIBIT A-13

	Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 63,970
Cash Receipts (Payments) from Other Funds	410,800
Cash Payments to Other Suppliers for Goods and Services	(336,706)
Other Operating Cash Receipts (Payments)	(6,293)
Net Cash Provided (Used) by Operating Activities	<u>131,771</u>
Cash Flows from Non-capital Financing Activities	<u>0</u>
Net Cash Provided (Used) by Non-capital Financing Activities	<u>0</u>
Cash Flows from Capital and Related Financing Activities	<u>0</u>
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>0</u>
Cash Flows from Investing Activities	<u>0</u>
Net Cash Provided (Used) for Investing Activities	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	131,771
Cash and Cash Equivalents at Beginning of Year	(9,179)
Cash and Cash Equivalents at End of Year	<u>\$ 122,592</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 132,774
Adjustments to Reconcile Operating Income to Net Cash Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(10,934)
Decrease (Increase) in Interfund Receivables	10,800
Increase (Decrease) in Accounts Payable	(869)
Total Adjustments	<u>(1,003)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 131,771</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2003

EXHIBIT A-14

	Total Agency Funds
ASSETS:	
Cash in County Treasury	\$ 2,429,860
Cash on Hand and in Banks	344,290
Total Assets	<u>\$ 2,774,150</u>
LIABILITIES:	
Due to Other Funds	\$ 2,429,860
Due to Student Groups	344,290
Total Liabilities	<u>2,774,150</u>
NET ASSETS:	
Total Net Assets	<u>\$ 0</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
INTERNAL SERVICE FUND
JUNE 30, 2003

EXHIBIT A-11

ASSETS:

Current Assets:
Cash in County Treasury
Accounts Receivable
Total Current Assets
Total Assets

LIABILITIES:

Current Liabilities:
Accounts Payable
Total Current Liabilities
Total Liabilities

NET ASSETS:

Unrestricted Net Assets
Total Net Assets

	<u>Self-Insurance Fund</u>
\$	122,592
	<u>10,934</u>
	<u>133,526</u>
\$	<u>133,526</u>
\$	<u>207</u>
	<u>207</u>
\$	<u>207</u>
	<u>- 133,319</u>
\$	<u>133,319</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2003

EXHIBIT A-12

Operating Revenues:

Local Revenue
Total Revenues

Operating Expenses:

Certificated Personnel Salaries
Total Expenses

Income (Loss) before Contributions and Transfers

Interfund Transfers In

Change in Net Assets

Total Net Assets - Beginning
Total Net Assets - Ending

	<u>Self-Insurance Fund</u>
\$	68,811
	<u>68,811</u>
	<u>335,837</u>
	<u>335,837</u>
	(267,228)
	<u>400,000</u>
	132,774
	545
\$	<u>133,319</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-9

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 500,000	\$ 101,500	\$ 142,418	\$ 40,918
Total Revenues	<u>500,000</u>	<u>101,500</u>	<u>142,418</u>	<u>40,918</u>
Expenditures:				
Classified Salaries	0	3,771	3,770	1
Employee Benefits	0	584	581	3
Books and Supplies	114,267	2,096,732	2,082,537	14,195
Services and Other Outlay	15,474	848,828	761,890	87,138
Capital Outlay	2,171,283	2,167,877	1,220,932	948,745
Debt Service:				
Principal	128,450	298,722	298,721	1
Total Expenditures	<u>2,427,474</u>	<u>5,416,314</u>	<u>4,368,231</u>	<u>1,048,083</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,927,474)</u>	<u>(5,314,814)</u>	<u>(4,225,813)</u>	<u>1,089,001</u>
Other Financing Sources (Uses):				
Operating Transfers In	2,040,000	4,739,018	4,739,938	918
Operating Transfers Out	(336,835)	(1,641,138)	(1,643,135)	(1,998)
Other Sources	0	1,540,000	1,429,824	(110,378)
Total Other Financing Sources (Uses)	<u>1,703,165</u>	<u>4,637,882</u>	<u>4,526,627</u>	<u>(111,457)</u>
Net Change in Fund Balance	(224,309)	(676,932)	300,612	977,544
Fund Balance, July 1	4,792,450	4,792,450	4,792,450	0
Fund Balance, June 30	<u>\$ 4,568,141</u>	<u>\$ 4,115,518</u>	<u>\$ 5,093,062</u>	<u>\$ 977,544</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
FINANCING CORPORATION
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-10

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 0	\$ 0	\$ 1,573,032	\$ 1,573,032
Total Revenues	<u>0</u>	<u>0</u>	<u>1,573,032</u>	<u>1,573,032</u>
Expenditures:				
Debt Service:				
Principal	455,000	455,000	455,000	0
Interest	408,740	408,740	408,740	0
Total Expenditures	<u>863,740</u>	<u>863,740</u>	<u>863,740</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(863,740)</u>	<u>(863,740)</u>	<u>709,292</u>	<u>1,573,032</u>
Net Change in Fund Balance	(863,740)	(863,740)	709,292	1,573,032
Fund Balance, July 1	9,353,755	9,353,755	9,353,755	0
Fund Balance, June 30	<u>\$ 8,480,015</u>	<u>\$ 8,480,015</u>	<u>\$ 10,063,047</u>	<u>\$ 1,573,032</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 31,318,054	\$ 29,627,243	\$ 30,165,430	\$ 538,187
Local Sources	21,532,813	23,898,786	23,356,727	(532,059)
Federal Revenue	3,777,840	4,475,144	4,166,626	(308,518)
Other State Revenue	14,880,784	12,927,580	12,740,422	(187,158)
Other Local Revenue	8,108,643	9,853,384	7,816,251	(1,837,133)
Total Revenues	<u>79,595,934</u>	<u>80,572,137</u>	<u>78,245,456</u>	<u>(2,326,681)</u>
Expenditures:				
Certificated Salaries	41,123,512	41,763,027	41,366,891	396,136
Classified Salaries	11,113,810	11,489,173	11,166,543	322,630
Employee Benefits	12,078,298	12,736,733	12,574,261	164,472
Books and Supplies	4,573,625	5,477,314	3,521,181	1,956,133
Services and Other Operating Expenditures	8,463,662	8,448,622	7,731,972	714,650
Capital Outlay	342,716	60,989	40,358	20,631
Other Outgo	937,960	1,118,102	1,021,710	86,392
Total Expenditures	<u>78,833,583</u>	<u>81,093,960</u>	<u>77,422,916</u>	<u>3,671,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>962,351</u>	<u>(521,823)</u>	<u>822,540</u>	<u>(5,997,725)</u>
Other Financing Sources (Uses):				
Operating Transfers In	0	900,918	1,296,869	395,971
Operating Transfers Out	(718,270)	(400,000)	(400,000)	0
Total Other Financing Sources (Uses)	<u>(718,270)</u>	<u>500,918</u>	<u>896,869</u>	<u>395,971</u>
Net Change in Fund Balance	246,081	(20,905)	1,719,429	(5,601,754)
Fund Balance, July 1	3,692,972	3,692,972	3,692,972	0
Fund Balance, June 30	<u>\$ 3,939,053</u>	<u>\$ 3,672,067</u>	<u>\$ 5,412,401</u>	<u>\$ (5,601,754)</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
BUILDING FUND
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

EXHIBIT A-8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 1,425,000	\$ 1,475,000	\$ 1,357,152	\$ (117,848)
Total Revenues	<u>1,425,000</u>	<u>1,475,000</u>	<u>1,357,152</u>	<u>(117,848)</u>
Expenditures:				
Books and Supplies	20,200	3,227	641	2,588
Services and Other Outlay	21,971	145,175	145,244	(69)
Debt Service:				
Principal	503,674	503,674	503,674	0
Interest	829,399	684,949	684,949	0
Total Expenditures	<u>1,375,244</u>	<u>1,337,025</u>	<u>1,334,508</u>	<u>2,517</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>49,756</u>	<u>137,975</u>	<u>22,644</u>	<u>(115,331)</u>
Other Financing Sources (Uses):				
Operating Transfers In	0	3,363	3,374	11
Operating Transfers Out	(2,585,592)	(3,182,800)	(3,182,800)	0
Other Sources	(2,540,000)	(3,182,800)	2,884,715	6,067,515
Total Other Financing Sources (Uses)	<u>(5,125,592)</u>	<u>(6,362,237)</u>	<u>(294,711)</u>	<u>6,067,526</u>
Net Change in Fund Balance	(5,075,836)	(6,224,262)	(272,067)	6,952,195
Fund Balance, July 1	368,489	368,489	368,489	0
Fund Balance, June 30	<u>\$ (4,707,347)</u>	<u>\$ (5,855,773)</u>	<u>\$ 96,422</u>	<u>\$ 5,952,195</u>

SAN LORENZO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

EXHIBIT A-5

	General Fund	Building Fund	Special Reserve (Capital Projects) Fund	Financing Corporation Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Revenue Limit Sources:						
State Apportionments	\$ 30,165,430	\$ 0	\$ 0	\$ 0	\$ 1,441,757	\$ 31,607,187
Local Sources	23,356,727	0	0	0	0	23,356,727
Federal Revenue	4,166,626	0	0	0	1,376,199	5,542,825
Other State Revenue	12,740,422	0	0	0	689,289	13,429,721
Other Local Revenue	7,816,251	1,357,152	142,418	1,573,032	3,453,041	14,341,894
Total Revenues	78,245,456	1,357,152	142,418	1,573,032	6,960,286	88,278,354
Expenditures:						
Certificated Salaries	41,366,891	0	0	0	969,108	42,325,999
Classified Salaries	11,166,543	0	3,770	0	1,827,319	12,997,632
Employee Benefits	12,574,281	0	581	0	568,227	13,143,069
Books and Supplies	3,521,181	641	2,082,537	0	1,650,264	7,254,623
Services and Other Outlay	7,731,972	145,244	761,690	0	352,968	8,991,874
Capital Outlay	40,358	0	1,220,832	0	715,117	1,976,407
Other Outgo	1,021,710	0	0	0	284,776	1,286,486
Debt Service:						
Principal	0	503,674	298,721	455,000	0	1,257,395
Interest	0	684,949	0	408,740	0	1,093,689
Total Expenditures	77,422,916	1,334,508	4,368,231	863,740	6,337,779	90,327,174
Excess (Deficiency) of Revenues Over (Under) Expenditures	822,540	22,644	(4,225,813)	709,292	622,517	(2,048,620)
Other Financing Sources (Uses):						
Operating Transfers In	1,296,889	3,374	4,739,936	0	370,000	6,410,199
Operating Transfers Out	(400,000)	(3,182,800)	(1,643,135)	0	(1,584,264)	(6,810,199)
Other Sources	0	2,884,715	1,429,624	0	0	4,314,339
Total Other Financing Sources (Uses)	896,889	(294,711)	4,526,425	0	(1,214,264)	3,914,339
Net Change in Fund Balance	1,719,429	(272,067)	300,612	709,292	(591,747)	1,865,519
Fund Balance, July 1	3,692,972	368,489	4,782,450	9,353,755	4,671,431	22,879,097
Fund Balance, June 30	\$ 5,412,401	\$ 96,422	\$ 5,093,062	\$ 10,063,047	\$ 4,079,684	\$ 24,748,616

The accompanying notes are an integral part of this statement.

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SAN LORENZO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

EXHIBIT A-6

Total net changes in fund balances - governmental funds		\$ 1,865,519
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$5,294,375 exceeds depreciation expense (\$4,448,272).		839,103
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Capital lease proceeds	(1,875,181)	
The governmental funds report debt proceeds as another financing source, while repayment of debt principal is reported as an expenditure.		
Payment of capital leases	433,272	
Payment of certificates of participation	824,123	1,257,395
In the statement of activities, compensated absences and retiree benefits are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$13,736. The retiree benefits exceeded the amounts paid by \$104,487.	(118,265)	
The internal services fund is used by the District to charge the costs of insurance to the individual funds. The net loss of the internal service fund is reported with governmental activities.	132,774	
Change in net assets of governmental activities - statement of activities	\$ 2,100,275	

The accompanying notes are an integral part of this statement. 13

SAN LORENZO UNIFIED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2003

EXHIBIT A-3

	General Fund	Building Fund	Special Reserve (Capital Projects) Fund	Financing Corporation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash in County Treasury	\$ 1,812,113	\$ 3,198,162	\$ 1,458,908	\$ 0	\$ 3,485,784	\$ 9,954,967
Cash in Revolving Fund	35,000	0	0	0	0	35,000
Cash with a Fiscal Agent/Trustee	0	0	755,368	0	0	755,368
Investments	0	0	0	10,063,047	0	10,063,047
Accounts Receivable	875,885	81,060	6,691	0	443,086	1,406,722
Due from Grantor Governments	3,755,271	0	0	0	174,048	3,929,319
Due from Other Funds	2,476,445	0	3,182,800	0	50,000	5,709,245
Stores Inventories	173,889	0	0	0	97,597	271,486
Total Assets	\$ 9,128,603	\$ 3,279,222	\$ 5,403,767	\$ 10,063,047	\$ 4,250,516	\$ 32,125,154
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	\$ 3,274,029	\$ 0	\$ 306,486	\$ 0	\$ 49,680	\$ 3,630,195
Due to Grantor Governments	58,323	0	0	0	0	58,323
Due to Other Funds	50,000	3,182,800	4,219	0	42,366	3,279,385
Deferred Revenue	333,650	0	0	0	78,785	412,635
Total Liabilities	3,716,202	3,182,600	310,705	0	170,831	7,380,538
Fund Balance:						
Reserved for:						
Revolving Cash	35,000					35,000
Stores	173,889				97,597	271,486
Legally Restricted	923,611					923,611
Designated for Economic Uncertainties	2,334,687					2,334,687
Designated for Debt Service				10,063,047		10,063,047
Other Designations	1,920,041					1,920,041
Undesignated	25,173	96,422	5,093,062			5,214,657
Unreserved, reported in nonmajor:						
Special Revenue Funds	0	0	0	0	3,538,396	3,538,396
Capital Projects Funds	0	0	0	0	443,691	443,691
Total Fund Balance	5,412,401	96,422	5,093,062	10,063,047	4,076,684	24,744,616
Total Liabilities and Fund Balances	\$ 9,128,603	\$ 3,279,222	\$ 5,403,767	\$ 10,063,047	\$ 4,250,516	\$ 32,125,154

The accompanying notes are an integral part of this statement.

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SAN LORENZO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

EXHIBIT A-4

Total fund balances - governmental funds:	\$ 24,744,616
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$75,338,844, and the accumulated depreciation is \$29,188,241.	46,172,603
Internal service funds are used by management to charge the costs of insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	133,319
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:	
Retiree benefits	\$ 380,177
Capital leases	2,785,013
Certificates of participation	13,672,004
Compensated absences (vacation)	945,153
	(17,693,347)
Total net assets - governmental activities	\$ 63,357,191

SAN LORENZO UNIFIED SCHOOL DISTRICT
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2003

EXHIBIT A-1

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash in County Treasury	\$ 10,867,927	\$	\$ 10,867,927
Investments	10,063,047		10,063,047
Accounts Receivable	5,346,975		5,346,975
Internal Balances	2,429,860		2,429,860
Stores Inventories	271,486		271,486
Capital Assets:			
Land	1,388,301		1,388,301
Improvement of sites	6,560,124		6,560,124
Buildings	61,971,764		61,971,764
Equipment	5,418,655		5,418,655
Less accumulated depreciation	(29,166,241)		(29,166,241)
Total Assets	75,151,696	0	75,151,696
LIABILITIES:			
Accounts Payable	3,688,725		3,688,725
Deferred Revenues	412,635		412,635
Noncurrent Liabilities:			
Due within one year	2,193,636		2,193,636
Due in more than one year	15,499,711		15,499,711
Total Liabilities	21,794,707	0	21,794,707
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	29,705,586		29,705,586
Restricted For:			0
Debt Service	10,063,047		10,063,047
Capital Projects	5,633,175		5,633,175
Educational Programs	1,141,680		1,141,680
Other purposes (expendable)	6,813,703		6,813,703
Unrestricted	0		0
Total Net Assets	\$ 53,357,191	\$ 0	\$ 53,357,191

SAN LORENZO UNIFIED SCHOOL DISTRICT
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

EXHIBIT A-2

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities	\$ 65,436,076	\$ 2,016,874	\$ 12,036,188	\$ (41,381,613)	\$	\$ (41,381,613)
Instruction	1,790,724	84,459	650,000	(884,065)		(884,065)
Instruction-related services:	1,995,517	0	376,063	(1,010,054)		(1,010,054)
Supervision of instruction	6,363,842	12,429	430,506	(6,923,907)		(6,923,907)
Instructional library, media and technology						
School site administration						
Public services:	1,478,022	145,927	1,164,456	(138,209)		(138,209)
Home-to-school transportation	3,272,224	897,683	2,088,214	(586,073)		(586,073)
Food services	3,150,061	180,940	877,061	(1,982,940)		(1,982,940)
All other public services						
General administration	740,034	6,937	6,937	(740,097)		(740,097)
Data processing	3,876,780	47,669	625,029	(3,201,463)		(3,201,463)
All other general administration	7,040,729	16,138	154,506	(7,770,063)		(7,770,063)
Plant services	283,481	0	287	(653,214)		(653,214)
Auxiliary services	144,912	0	101,218	(43,394)		(43,394)
Community services		0	0			
Enterprise activities	403,740	215	2,294,035	(403,740)		(403,740)
Interest on long-term debt	2,077,290	0	0	216,960		216,960
Other outgo						
Depreciation (unallocated)						
Business-type activities:						
Food services	0	0	0	0	0	0
Enterprise activities	0	0	0	0	0	0
General administration	0	0	0	0	0	0
Plant services	0	0	0	0	0	0
Other outgo	0	0	0	0	0	0
Total expenses	\$ 69,351,292	\$ 3,384,573	\$ 22,002,481	\$ (62,969,239)	\$ 0	\$ (62,969,239)
General revenues						
Taxes and subventions:						
Taxes levied for general purposes				22,415,744		22,415,744
Taxes levied for debt service				142,761		142,761
Taxes levied for other specific purposes				35,411,028		35,411,028
Federal and state aid not restricted to specific purposes				2,165,231		2,165,231
Interest and investment earnings				0		0
Interagency revenues				4,831,652		4,831,652
Miscellaneous				0		0
Special and extraordinary items				0		0
Internal transfers				65,000,614		65,000,614
Total general revenues, special and extraordinary items, and transfers				94,867,030		94,867,030
Change in net assets				2,100,375	0	2,100,375
Net assets beginning				51,256,816		51,256,816
Net assets ending				\$ 53,357,191	\$ 0	\$ 53,357,191

Contacting the School District's Financial Management

The financial report is designed to provide citizens, taxpayers, investors and creditors with an overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Business Services, San Lorenzo Unified School District, 15510 Usher Street, San Lorenzo, CA 94580 or call 510-317-4641.

Basic Financial Statements

Note: Since the 2002-2003 fiscal year is the first year for reporting under GASB 34, a comparison of fiscal year 2002-2002 to fiscal year 2002-2003 was not possible.

Analysis of the District's Financial Position

The District's major funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$90.5 million and expenditures of \$88.4 million. The increase in net assets of \$3.9 million was established in order to protect the District against future state budget reductions. Over 90% of the increase in net assets resulted from differences in revenues and expenses for restricted funds and was accompanied by the transfer of available restricted balances to the unrestricted portion of the General Fund where allowed.

Table 2
 Statement of Activities
 (In Millions)

	Governmental Activities	Business- Type Activities	Total
REVENUES			
<i>Program Revenues</i>			
Charges for services	\$ 3.4		\$ 3.4
Federal and state categorical grants	22.0		22.0
<i>General Revenues</i>			
Property taxes	22.6		22.6
State formula aid	35.4		35.4
Other	7.1		7.1
Total Revenues	\$90.5	\$0.0	\$90.5
EXPENSES			
Instruction	\$55.4		\$55.4
Instruction-related	9.6		9.6
Student support services	7.9		7.9
General administration	4.6		4.6
Plant services	7.9		7.9
Other	3.0		3.0
Total Expenses	\$88.4	\$0.0	\$88.4
Excess (deficiency)	2.1		2.1
Special item			
Increase/(decrease) in Net Assets	\$ 2.1	\$0.0	\$ 2.1

Note: Since the 2002-2003 fiscal year is the first year for reporting under GASB 34, a comparison of fiscal year 2001-2002 to fiscal year 2002-2003 was not possible.

Analysis of Balances of Individual Funds

Each fund of the District ended the 2002-2003 fiscal year with a positive balance. The General Fund maintained a reserve for economic uncertainties at 3% of General Fund expenditures, in accordance with state statutes.

Analysis of Budget

The District's budget is prepared based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

For the General Fund, the actual revenue for 2002-2003 was \$78.25 million, a decrease of \$1.0 million from the original budget of \$79.04 million. The decrease was primarily due to state budget reductions. The District took necessary actions during the fiscal year to reduce expenditures as a result of the state budget reductions. Total actual expenditures for the General Fund were \$77.4 million, \$.8 million below total revenue. Expenditures were brought below the revenue level in order to offset the impact of additional state budget cuts anticipated for fiscal year 2004.

Significant Activity of Capital Assets and Long-Term Liabilities

Capital Assets

Capital assets include land, building, improvements of sites and equipment, less accumulated depreciation.

Net capital assets increased by \$0.84 million (1.9%), from \$45.33 million to \$46.17 million during the fiscal year ending June 30, 2003.

Long-Term Liabilities

Long-term liabilities include payables for Certificates of Participation, capital leases, compensated absences and other post-employment benefits.

Long-term liabilities increased by \$0.23 million (1.4%), from \$16.96 million to \$17.08 million during the fiscal year ending June 30, 2003.

The General Fund, the Building Fund, the Capital Facilities Fund and the Financing Corporation Fund are the most significant funds for the District.

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and the Management Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, District-wide and by Funds.

Statement of Net Assets and Statements of Activities: While this document contains the large number of Funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. The net asset is one way of measuring the District's financial position. Increases or decreases in the net assets are one indicator of whether its financial health is improving or deteriorating. The causes of the change may be the result of non-financial factors as well as financial factors. Non-financial factors include the District's property tax base, current property tax laws, required educational programs and other factors.

In the *Statement of Net Assets and the Statement of Activities*, finances are divided into the following:

- *Governmental Activities* - Most of the District's programs and services reported here include regular and special education, pupil transportation, operations and maintenance, food services, and administration. Property taxes and state aid finance most of these activities.
- *Business-type Activities* - In some cases, districts charge fees to cover the costs of certain services it provides. However, San Lorenzo Unified School District has no program, services, or activities in this area.

Reporting the District's Most Significant Funds

Fund Financial Statements: Fund financial reports provide information on the District's major Funds. The District uses Funds to account for all financial transactions. The District's major Funds include: the General Fund, Special Revenue Funds, and Capital Projects Funds. The Special Revenue Funds include: Adult Education Fund, Child Development fund, Cafeteria Special Revenue Fund, Deferred Maintenance Fund and Special Reserve for Other Than Capital Outlay Fund. The Capital Projects Funds include: Building Fund, Capital Facilities Fund, and the Special Reserve for Capital Outlay Fund.

Governmental Fund: The District's activities are reported in the Governmental Fund. It focuses on how money flows in and out of the District and the balance at year-end available for future

periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund statements provide a short-term view of the District's general operations and the basic services it provides. The relationship (or differences) between Governmental activities (reporting in the *Statement of Net Assets and Statement of Activities*) and Governmental Funds is reconciled in the financial statements.

Proprietary Fund - Services for which the District charges a fee are generally reported in proprietary funds. Districts may choose to operate the Cafeteria Fund as a proprietary fund; however, the San Lorenzo Unified School District operates the Cafeteria Fund as a Governmental Fund.

Fiduciary Funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District-wide financial statement because the District cannot use these assets to finance its operations.

Table 1
 Net Assets
 (In Millions)

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current and Other Assets	\$29.0		\$29.0
Capital Assets	46.2		46.2
Total Assets	\$75.2	\$0.0	\$75.2
LIABILITIES			
Long-Term Liabilities	\$17.6		\$17.6
Other Liabilities	4.1		4.1
Total Liabilities	\$21.7	\$0.0	\$21.7
NET ASSETS			
Invested in Capital Assets Net of Debt	\$30.2		\$30.2
Restricted	23.7		23.7
Unrestricted	(0.5)		(0.5)
Total Net Assets	\$53.4	\$0.0	\$53.4

BOHREN AND COMPANY, An Accountancy Corporation

1350 Arnold Drive, Suite 200, Martinez, CA 94553

SAN LORENZO UNIFIED SCHOOL DISTRICT

15510 Usher Street
San Lorenzo, CA 94580
510.317.4600

Independent Auditors' Report on Financial Statements

Board of Trustees
San Lorenzo Unified School District
15510 Usher Street
San Lorenzo, California 94580-1641

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Lorenzo Unified School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of San Lorenzo Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

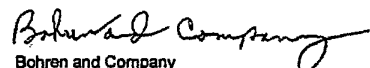
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Lorenzo Unified School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated November 14, 2003, on our consideration of San Lorenzo Unified School District's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the San Lorenzo Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Bohren and Company
An Accountancy Corporation
November 14, 2003

Management's Discussion and Analysis for Fiscal Year Ended June 30, 2003

The discussion and analysis of San Lorenzo Unified School District's financial performance provide an overview of the District's financial activities for the fiscal year ended June 30, 2003.

District Highlights

Academic achievement, as measured by the State Academic Performance Index (API), increased District-wide from a score of 652 to 677. API rose in 12 of 13 schools with reported scores. No scores were reported for Royal Sunset (Continuation) High School or San Lorenzo High School.

The District's eLearning program, with more than 3,000 laptop computers distributed to students in grades 4 through 12, gained significant service improvements through 48 additional teachers completing the 40 hour "Intel Teach to the Future" technology integration program.

California High School Exit Exam (CAHSEE) performance improved for 2003, as the percent of students passing the test in English-Language Arts increased from 44% in 2002 to 67% in 2003 and the percentage of students passing the mathematics test increased from 27% in 2002 to 46% in 2003.

The attendance rate continued to be well below average for comparable school districts in Alameda County. The District's attendance rate for fiscal year 2003 was 93.8%, more than 1% below the county average of 95%.

The District ended the 2002-2003 fiscal year with a reserve for economic uncertainties that was above the 3% level normally required by the state. While the state enacted midyear legislation to allow school districts to drop below this level for a temporary period of time, the District was able to maintain the 3% level in an attempt to safeguard against further state budget reductions.

Description of Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand San Lorenzo Unified School District's finance as a whole. The statements also provide a detailed look at specific financial activities.

The Statement of Net Assets and Activities provides information about the activities of the whole school district. It presents both an aggregate view of the District's finances and a longer term view of those finances. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The statements also look at the District's most significant funds with all other non major funds presented in total in one column.

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SAN LORENZO UNIFIED SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES — Other District Funds" herein.

SAN LORENZO UNIFIED SCHOOL DISTRICT Other District Funds

Fund	June 30, 2003, Balance ^(a)	June 30, 2004, Estimated Balance ^(b)	June 30, 2005, Estimated Balance ^(c)
Special Revenue Funds			
Adult Education	\$ 16,878	\$ 150,988	\$ 150,988
Cafeteria	623,063	239,682	239,682
Child Development	0	10,499	0
Deferred Maintenance	2,759,341	1,778,452	1,778,452
Special Reserve	236,711	240,808	240,808
Subtotal for Special Revenue Funds	<u>3,635,993</u>	<u>2,420,429</u>	<u>2,409,930</u>
Capital Project Funds			
Building	96,422	541	0
Capital Facilities	443,691	185,953	185,953
Financing Corporation	10,063,047		0
Special Reserve (Capital)	5,093,062	3,820,078	3,820,078
State School Building Fund	0	0	0
Subtotal for Capital Project Funds	<u>15,696,222</u>	<u>4,006,572</u>	<u>4,006,031</u>
Total Alternate Liquidity	<u>\$19,332,215</u>	<u>\$ 6,427,001</u>	<u>\$ 6,415,961</u>

(a) Audited Financial Statement.

(b) Second Interim Report adopted on March 16, 2004.

(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$4,000,000 tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "SAN LORENZO UNIFIED SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003."

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.12 times the principal and interest due on the Notes at maturity. See "THE NOTES — Security and Sources of Payment" herein.

SAN LORENZO UNIFIED SCHOOL DISTRICT Note Coverage Ratio

<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 1,554,083
Projected 2004/05 Cash Receipts (Including Note Proceeds)	78,979,435
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(75,913,593)</u>
Balance	\$ 4,619,925
Note Repayment	\$ 4,119,667
NOTE COVERAGE RATIO	1.12 : 1

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

SAN LORENZO UNIFIED SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balance

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^(a)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(b)
Revenues					
Revenue Limit Sources:				\$52,817,872	\$51,890,614
State Aid	\$28,435,053	\$29,709,718	\$30,165,430		
Property Taxes	20,891,229	22,530,173	23,356,727		
Federal Revenue	2,559,826	3,194,812	4,166,626	4,983,715	5,001,715
Other State Revenue	15,234,908	14,293,478	12,740,422	11,111,105	10,745,607
Other Local Revenue	6,328,198	6,878,546	7,816,251	6,338,782	6,338,782
Total Revenues	73,449,214	76,606,727	78,245,456	75,251,474	73,976,718
Expenditures					
Certificated Salaries	39,661,422	40,963,175	41,366,891	40,521,538	40,569,190
Classified Salaries	10,846,506	11,221,130	11,166,543	10,648,106	10,674,313
Employee Benefits	11,415,104	12,089,726	12,574,261	12,393,794	12,413,130
Books and Supplies	3,181,028	4,853,844	3,521,181	4,964,854	4,057,727
Services, Other Operating Expenses	6,870,041	7,436,581	7,731,972	7,461,954	7,115,279
Capital Outlay	269,353	181,933	40,358	31,214	0
Other Outgo	0	1,324,219	1,021,710	1,134,920	1,233,954
Total Expenditures	72,243,454	78,070,608	77,422,916	77,156,380	76,063,593
Other Financing Sources/(Uses)					
Interfund Transfers In / Other Sources	272,995	1,166,471	1,296,889	407,087	383,050
Interfund Transfers Out / Other Uses	(2,546,684)	(1,042,236)	(400,000)	(360,499)	(350,000)
Total Other Financing Sources/(Uses)	(2,273,689)	124,235	896,889	46,588	33,050
Excess of Revenues Over (Under) Expenditures	(1,067,929)	(1,339,646)	1,719,429	(1,858,318)	(2,053,825)
Beginning Fund Balance	6,100,548	5,032,619	3,692,973	5,412,402	3,554,084
Ending Fund Balance	\$ 5,032,619	\$ 3,692,973	\$ 5,412,402	\$ 3,554,084	\$ 1,500,259

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 16, 2004.

SAN LORENZO UNIFIED SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$49,326,282	67.16%
2001/02 ^(a)	52,239,891	68.19
2002/03 ^(a)	53,522,157	68.40
2003/04 ^(b)	52,817,872	70.19
2004/05 ^(b)	51,890,614	70.14

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 16, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects no change in the number of full-time equivalent certificated and or full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .15% in the 2004/05 fiscal year.

SAN LORENZO UNIFIED SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$61,923,032	85.71%
2001/02 ^(a)	64,274,031	82.33
2002/03 ^(a)	65,107,695	84.09
2003/04 ^(b)	63,563,438	82.38
2004/05 ^(b)	63,656,633	83.69

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 16, 2004.

Labor Relations

The District employs 609 full-time equivalent certificated and 307 full-time equivalent classified employees. There are three formal bargaining organizations that are active in the District.

SAN LORENZO UNIFIED SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	235	June 30, 2005 ^(a)
San Lorenzo Education Association	652	June 30, 2004 ^(a)
Service Employees International Union	197	June 30, 2005 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all District operating funds are held by the Alameda County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "**APPENDIX C – ALAMEDA COUNTY – COUNTY INVESTMENT PORTFOLIO REPORT**" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 0% COLA for the 2004/05 revenue limit income in the table below. See "**GENERAL SCHOOL DISTRICT INFORMATION– State Funding of Education**" and "**– Average Daily Attendance**" herein.

GENERAL AND FINANCIAL INFORMATION

Introduction

The District provides education services to the residents of the unincorporated areas in Alameda County known as San Lorenzo and Ashland, and to a portion of Cherryland, an unincorporated area of Hayward, as well as to all of Washington Manor an area, largely residential, which is within the City of San Leandro. The District serves a population of approximately 73,355.

The District operates nine elementary schools (K-5), three middle schools (6-8), two high schools (9-12), one continuation school and one adult school.

The District's 2003/04 pupil-teacher ratios are 25:1 for grades K-12.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered elections. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Arnie Glassberg has served in this capacity since August 2002.

Average Daily Attendance

The following table reflects the District's historical second period A.D.A. for the last four years and a projection for 2004/05.

SAN LORENZO UNIFIED SCHOOL DISTRICT Average Daily Attendance Second Period Report

<u>Academic Year</u>	<u>Average Daily Attendance^(a)</u>
2000/01 ^(b)	11,116
2001/02 ^(b)	11,244
2002/03 ^(b)	10,969
2003/04 ^(c)	10,878
2004/05 ^(c)	10,815

^(a) Includes grades K-12, special education, continuation education, and opportunity schools

^(b) Audited Financial Statements.

^(c) Estimated – the District.

SAN LORENZO UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Norman D. Fobert
President

Raymond J. Grangoff
Clerk

Helen T. Randall
Member

Isabel Polvorosa
Member

Barbara J. Sidari
Member

DISTRICT ADMINISTRATION

Arnie C. Glassberg
Superintendent

Lowell Shira
Assistant Superintendent

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RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards and Grants

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

NOTE 16 - SUBSEQUENT EVENT

Tax and Revenue Anticipation Notes (TRANS)

On July 1, 2003 the District issued \$3,600,000 of tax and revenue anticipation notes (TRANS). The notes mature on June 30, 2004. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

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RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - FUND BALANCES (CONCLUDED)

A. Reserved for Restricted Programs reflects unspent program revenues that are legally restricted for future use. Restricted program balances at June 30, 2003 are as follows:

Transportation	\$ 35,311
Resig	10,221
Total	<u>\$ 45,532</u>

B. Designations of ending fund balance as of June 30, 2003 are as follows:

MAJOR FUNDS:

General Fund:

Economic Uncertainties	\$ 924,916
Mathematics	100,000
School Site Carryover	151,575
Special Education	35,000
Equipment Replacement	25,000
Library	100,000
Potential Mid-year Reductions	<u>150,000</u>

Total \$ 1,486,491

Special Revenue - Special Reserve Fund:

Contribution to the General Fund \$ 193,000

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$747,511, \$742,220, and \$735,253, respectively, and equal 100% of the required contributions for each year.

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% 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 2002-03 was 2.83%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002, and 2001, were \$225,115, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) and to the California Public Employees' Retirement System (CalPERS) for K-12 Education. This payment consists of state general fund contributions to STRS in the amount of \$412,037 (4.5475% of salaries subject to STRS) and \$2,884 to CalPERS (0.092% of salaries subject to CalPERS).

NOTE 14 - JOINT VENTURES

The District participates in one joint venture under a joint powers agreement (JPA) with the Redwood Empire Schools' Insurance Group (RESIG) for property & liability, workers' compensation, and dental insurance coverage. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

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

The JPA is audited on an annual basis. Financial information can be obtained by contacting the JPA's management.

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - CERTIFICATES OF PARTICIPATION (CONCLUDED)

At June 30, 2003, the principal balance outstanding was \$4,565,000. The certificates mature through 2029 as follows:

Year Ending June 30	Principal	Interest	Totals
2004	\$ 95,000	\$ 216,529	\$ 311,529
2005	100,000	213,014	313,014
2006	105,000	209,264	314,264
2007	105,000	205,195	310,195
2008	110,000	200,995	310,995
2009-2013	630,000	930,775	1,560,775
2014-2018	795,000	772,575	1,567,575
2019-2023	1,025,000	558,565	1,583,565
2024-2028	1,300,000	276,500	1,576,500
2029-2033	300,000	15,000	315,000
Totals	<u>\$ 4,565,000</u>	<u>\$ 3,598,412</u>	<u>\$ 8,163,412</u>

NOTE 8 - CAPITAL LEASES

The District leases computers and computer equipment valued at \$380,748 under agreements that provide for title to pass upon expiration of the lease periods.

Future minimum lease payments under these agreements are as follows:

Year Ending June 30	Lease Payments
2004	\$ 73,767
2005	<u>9,792</u>
Total payments	83,559
Less amounts representing interest	<u>(7,703)</u>
Present value of net minimum lease payments	<u>\$ 75,856</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for these computers or computer equipment.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

In addition to the benefits described in Note 12, the District has entered into agreements with retirees to provide medical benefits. As of June 30, 2003, thirty-two retirees were receiving medical benefits.

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

Future estimated payments for these retirees at June 30, 2003, are as follows:

Year Ending June 30	Payments
2004	\$ 94,970
2005	77,021
2006	56,150
2007	49,372
2008	43,780
2009-2013	<u>94,252</u>
Total	<u>\$ 415,545</u>

NOTE 10 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2003, is shown below:

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003	Due within One Year
Compensated Absences	\$ 80,496	\$ 30,514		\$ 111,010	
Certificates of Participation	4,655,000		\$ 90,000	4,565,000	\$ 95,000
Capital Leases	190,610		114,754	75,856	66,875
Other Post Employment Benefits	<u>232,035</u>	<u>183,510</u>		<u>415,545</u>	<u>94,970</u>
Totals	<u>\$ 5,158,141</u>	<u>\$ 214,024</u>	<u>\$ 204,754</u>	<u>\$ 5,167,411</u>	<u>\$ 256,845</u>

NOTE 11 - FUND BALANCES

A. Reservations of fund balances as of June 30, 2003 are as follows:

	General Fund	Other Governmental Funds	Totals
Revolving Fund	\$ 1,500		\$ 1,500
Stores Inventory	27,422	\$ 3,459	30,881
Debt Service		332,959	332,959
Restricted Programs	<u>45,532</u>		<u>45,532</u>
Totals	<u>\$ 74,454</u>	<u>\$ 336,418</u>	<u>\$ 410,872</u>

Reserved for Revolving Fund represents the portion of the ending fund balance represented by the revolving fund cash.

Reserved for Stores Inventory represents the portion of the ending fund balance represented by stores inventory.

Reserved for Debt Service consists of \$13,390 in the Retiree Benefits Fund, reserved for future retiree benefits, and \$319,569 in the Capital Projects - Special Reserve Fund, reserved for future payment of interest and redemption of the certificates of participation.

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2003 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 100,050	\$ 17,237
<u>Special Revenue Funds:</u>		
Deferred Maintenance		6,982
Cafeteria		32,913
Child Development		49,066
<u>Capital Projects Funds:</u>		
Building	<u>17,237</u>	<u>11,089</u>
Totals	<u>\$ 117,287</u>	<u>\$ 117,287</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2002-03 fiscal year were as follows:

Transfer from General Fund to Deferred Maintenance Fund to match state allocation	\$ 94,959
Transfer from Capital Projects - Special Reserve Fund to Capital Facilities Fund excess reserve held with fiscal agent	48,207
Transfer from Special Revenue - Special Reserve Fund to General Fund to support activities	160,000
Transfer from Child Development Fund to General Fund to support activities	150,000
Transfer from Capital Facilities Fund to Capital Projects - Special Reserve Fund for COP payment	309,769
Transfer from Special Revenue - Special Reserve Fund to Retiree Benefits Fund to fund ongoing retiree benefit costs	22,000
Transfer from General Fund to Retiree Benefits Fund to fund ongoing retiree benefit costs	<u>61,000</u>
Total	<u>\$ 845,935</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2003, are shown below:

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003
Land	\$ 1,122,383			\$ 1,122,383
Sites and Improvements	680,379			680,379
Buildings and Improvements	12,110,981	\$ 45,295		12,156,276
Furniture and Equipment	869,346			869,346
Work in Progress	<u>0</u>	<u>13,905</u>		<u>13,905</u>
Totals at Historical Cost	<u>14,783,089</u>	<u>59,200</u>	<u>\$ 0</u>	<u>14,842,289</u>
Less accumulated depreciation for:				
Sites and Improvements	536,398	9,289		545,687
Buildings and Improvements	4,012,589	257,134		4,269,723
Furniture and Equipment	<u>572,770</u>	<u>74,922</u>		<u>647,692</u>
Total Accumulated Depreciation	<u>5,121,757</u>	<u>341,345</u>	<u>0</u>	<u>5,463,102</u>
Governmental Activities				
Capital Assets, net	<u>\$ 9,661,332</u>	<u>\$ (282,145)</u>	<u>\$ 0</u>	<u>\$ 9,379,187</u>

Depreciation Expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 220,472
Supervision of Instruction	3,429
Instructional Media & Library	4,912
School Administration	22,598
Home-to-School Transportation	4,766
Other Pupil Services	12,532
Food Services	11,586
Other General Administration	18,085
Ancillary Services	131
Community Services	12,466
Plant Services	<u>30,368</u>
Total Depreciation Expense	<u>\$ 341,345</u>

NOTE 7 - CERTIFICATES OF PARTICIPATION

In May 1998, the District issued \$4,915,000 of Certificates of Participation (COPS) with interest rates ranging from 4.6 to 5.0 percent for the purpose of providing resources for specific capital projects.

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax (Concluded)

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on secured roll are due on November 15 and March 15, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash with the Sonoma County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates fair value. The difference between cost and fair value of the District's share of pooled investments in the Sonoma County Treasury was not material throughout fiscal year 2002-03. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Investments by the District in pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Cash in Banks and in Revolving Fund

Cash balances in Banks and in the Revolving Fund are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions are fully insured or collateralized.

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Cash Balances

Cash at June 30, 2003 consisted of the following:

	Governmental Activities	Fiduciary Activities
Pooled Funds:		
Cash in County Treasury	\$ 6,438,818	
Deposits:		
Cash on Hand and in Banks	12,000	\$ 20,586
Cash in Revolving Fund	1,500	
Cash with Fiscal Agent	<u>319,569</u>	
Total Cash	<u>\$ 6,771,887</u>	<u>\$ 20,586</u>

Cash with Fiscal Agent of \$319,569, is held by Zions Bank as trustee for the District and is reserved for future payment of interest and redemption of principal related to the certificates of participation.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There was no excess of expenditures over appropriations in any fund during fiscal year 2002-03.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 consist of the following:

	General Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Federal Government				
Categorical Programs	<u>\$ 85,093</u>		<u>\$ 99,473</u>	<u>\$ 184,566</u>
State Government				
State Aid	16,452			16,452
Categorical Programs	463,985		6,490	460,475
Other Allowances	75,201			75,201
Lottery	<u>36,092</u>			<u>36,092</u>
Total State	581,730		6,490	588,220
Local Governments	366,223			366,223
Interest	12,164			12,164
Miscellaneous	<u>27,093</u>	<u>\$ 17,823</u>	<u>33,557</u>	<u>78,473</u>
Totals	<u>\$ 1,072,303</u>	<u>\$ 17,823</u>	<u>\$ 139,520</u>	<u>\$ 1,229,646</u>

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

3. Capital Assets (Concluded)

Asset Class	Example	Estimated Useful Life in Years
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction	Building improvements	25
Carpet replacement	Building improvements	7
Electrical/plumbing	Building improvements	30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodian equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PC's, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

RINCON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

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

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

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

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Premiums and discounts as well as issuance costs are deferred and amortized over the life of the debt. Long-term debt is reported net of applicable premiums or discounts.

In the fund financial statements, governmental funds recognize premiums and discounts as well as issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the nine (9) student body and library accounts. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds. By State law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 39.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (see Note 3).

H. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Encumbrances

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

J. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Concluded)

1. Deposits and Investments (Concluded)

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

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

The District did not directly enter into any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

2. Inventories

Inventory is recorded using the purchase method in that the cost (handling charge for state surplus food) is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of expendable supplies held for consumption.

Reported inventories are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives.

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use 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 under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transaction must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

The *Special Revenue - Special Reserve Fund* is used to account for the receiving and expending of funds specified by the Governing Board of the District.

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

Non-major Governmental Funds:

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

1. Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. Child Development Fund is used to account for resources committed to development programs maintained by the District.
4. Retiree Benefits Fund is used to account for assets held by the District as trustee. The fund was established to accumulate funds to provide future health and welfare benefits for qualified retirees in the District.

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

1. Building Fund is used to account for resources received from the issuance of a bond to finance school improvement and expansion.
2. Special Reserve - Capital Outlay Fund is used to account for the expenditures associated with construction of the new elementary school.

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

RINCON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

In determining its reporting entity, the District considered all governmental units that were members of the District since inception. The criteria did not require the inclusion of these entities in the District's financial statements principally because the District does not exercise oversight responsibility over any members.

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis for accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of \$4,503,191, for a net asset balance of \$12,154,021 at June 30, 2002, on the government-wide financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

RINCON VALLEY UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net Change in Fund Balances - Governmental Funds	\$	(660,885)
Amounts reported for governmental activities in the statement of activities are different due to the following:		
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 allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeded depreciation during the fiscal year.		
Depreciation Expense	\$ (341,345)	
Capital Outlays	59,200	
		(282,145)
In the statement of activities, certain operating expenses-compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year amounts earned exceeded amounts used by:		
		(214,024)
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		
Certificates of Participation	\$ 90,000	
Capital Leases	114,754	
		204,754
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. Accrued interest on certificates of participation decreased by \$540.		
		540
Change in Net Assets of Governmental Activities	\$	(951,770)

RINCON VALLEY UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Cash on Hand and in Banks	\$ 20,586	\$ 20,586
<u>Liabilities</u>		
Due to Student Groups	20,586	20,586
<u>Net Assets</u>		
Net Assets	\$ 0	\$ 0

**RINCON VALLEY UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2003**

Total Fund Balances - Governmental Funds	\$	6,989,936
Amounts reported for governmental activities in the statement of net assets are different due to the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$14,842,289, and the accumulated depreciation is \$5,463,102.		9,379,187
Unmatured interest on long-term debt: In governmental funds, interest is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The decrease in liability for unmatrued interest owed at the end of the period was:		540
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Compensated Absences	\$	111,010
Certificates of Participation		4,585,000
Capital Leases		75,856
Other Post Employment Benefits		415,545
		(5,167,411)
Total Net Assets - Governmental Activities	\$	11,202,251

**RINCON VALLEY UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund	Special Revenue - Reserve Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Revenue Limit Sources:					
State Apportionment	\$ 1,900,135				\$ 1,900,135
Local Taxes	10,354,679				10,354,679
Total Revenue Limit Sources	12,254,814				12,254,814
Federal Revenue	772,955			\$ 234,256	1,007,211
State Revenue	3,009,636			99,841	3,109,477
State On-Behalf Payments	414,921				414,921
Local Revenue	1,937,103	\$ 26,838	\$ 467,697	1,420,308	3,851,946
Total Revenues	18,389,429	26,838	467,697	1,754,405	20,638,369
Expenditures					
Instruction	13,178,603			255,311	13,433,914
Supervision of Instruction	199,779				199,779
Instructional Library, Media and Technolog	292,335				292,335
School Administration	1,356,445				1,356,445
Home-to-school Transportation	285,481				285,481
Food Services				693,959	693,959
Other Pupil Services	750,592				750,592
Other General Administration	1,031,768		12,830	26,598	1,071,196
Plant Services	1,484,489		122,869	195,222	1,802,580
Facilities Acquisition and Construction	10,384		54,162		64,546
Ancillary Services	7,835				7,835
Community Services				746,657	746,657
Debt Service:					
Principal	114,754			90,000	204,754
Interest	17,619			219,769	237,288
Other Outgo	151,903				151,903
Total Expenditures	18,881,887	0	189,861	2,227,516	21,299,264
Excess of Revenues Over (Under) Expenditures	(492,458)	26,838	277,836	(473,111)	(660,895)
Other Financing Sources (Uses)					
Operating Transfers In	310,000		48,207	487,728	845,935
Operating Transfers Out	(155,959)	(182,000)	(309,769)	(198,207)	(845,935)
Total Other Financing Sources (Uses)	154,041	(182,000)	(261,562)	289,521	0
Net Change in Fund Balances	(338,417)	(155,162)	16,274	(183,590)	(660,895)
Fund Balances - July 1, 2002	2,190,266	1,202,605	2,885,175	1,572,794	7,850,840
Fund Balances - June 30, 2003	\$ 1,851,839	\$ 1,047,443	\$ 2,701,449	\$ 1,389,204	\$ 6,989,936

RINCON VALLEY UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
Instruction	\$ 13,425,859	\$ 317,971	\$ 2,126,881		\$ (10,981,007)
Instruction-Related Services:					
Supervision of Instruction	208,792	13,870	81,494		(113,428)
Instructional Library, Media, Technology	299,139				(299,139)
School Site Administration	1,376,159				(1,376,159)
Pupil Services:					
Home-to-School Transportation	290,247	46,329	193,902		(50,016)
Food Services	705,545	112,618	471,343		(121,584)
Other Pupil Services	763,124	87,831	370,716		(304,577)
General Administration:					
Other General Administration	1,101,334	8,074	59,972		(1,033,288)
Plant Services	1,849,279	581	122,135		(1,726,583)
Ancillary Services	7,966				(7,966)
Community Services	759,123				(759,123)
Interest on Long-Term Debt	238,748				(238,748)
Other Outgo	151,903				(151,903)
Total Governmental Activities	\$ 21,175,218	\$ 587,254	\$ 3,426,443	\$ 0	(17,161,521)
General Revenues:					
Taxes Levied for General Purposes					10,354,679
Taxes Levied for Specific Purposes					478,456
Federal and State Aid - Unrestricted					3,588,579
Interest and Investment Earnings					276,096
Miscellaneous					1,513,941
Total General Revenues					16,209,751
Change in Net Assets					(951,770)
Net Assets - July 1, 2002					12,154,021
Net Assets - June 30, 2003					\$ 11,202,251

RINCON VALLEY UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Special Revenue - Special Reserve Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash in County Treasury (Note 2)	\$ 1,648,222	\$ 1,047,443	\$ 2,711,975	\$ 1,031,178	\$ 6,438,818
Cash on Hand and in Banks	4,500			7,500	12,000
Cash in Revolving Fund	1,500				1,500
Cash with Fiscal Agent				319,569	319,569
Accounts Receivable (Note 4):					
Federal Government	85,093			99,473	184,566
State Government	581,730			6,490	588,220
Local Governments	366,223				366,223
Interest	12,164				12,164
Miscellaneous	27,093		17,823	33,657	78,473
Due from Other Funds (Note 5)	100,050			17,237	117,287
Stores Inventory (Note 1J)	27,422			3,459	30,881
Total Assets	\$ 2,853,997	\$ 1,047,443	\$ 2,729,798	\$ 1,518,463	\$ 8,149,701
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 807,094		\$ 28,349	\$ 28,904	\$ 864,347
Due to Other Funds (Note 5)	17,237			100,050	117,287
Deferred Revenue (Note 1J)	177,827			305	178,132
Total Liabilities	1,002,158		28,349	129,259	1,159,766
Fund Balances: (Note 11)					
Reserved	74,454			336,418	410,872
Unreserved:					
Designated	1,486,491	\$ 193,000			1,679,491
Undesignated	290,894	854,443	2,701,449	1,052,786	4,899,572
Total Fund Balances	1,851,839	1,047,443	2,701,449	1,389,204	6,989,935
Total Liabilities and Fund Balances	\$ 2,853,997	\$ 1,047,443	\$ 2,729,798	\$ 1,518,463	\$ 8,149,701

**RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**RINCON VALLEY UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003**

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The Original budget presented on page 39 includes only new revenues for 2002-03. During the budget revision process the District accounts for prior year restricted ending balances by budgeting to use the carryover.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The adopted State budget for 2003-04 contained no COLA and a 1.2% reduction to revenue limit funding. This resulted in a total deficit of 3% for the District. Though State tax collections for the first quarter of 2003-04 are above the budget projections, there remains a structural deficit between its revenues and expenditures. It is unknown at this point how the new Governor will address this issue. The adopted state budget for 2003-04 deferred \$8 billion of the deficit into the 2004-05 fiscal year.
- The District will utilize some of the \$1,047,443 ending balance in the Special Revenue – Special Reserve Fund to support its ongoing General Fund obligations during this period of State Revenue reductions.
- Enrollment is expected to increase slightly for the next two years. The housing vacancy rate remains relatively high in the City of Santa Rosa due to the downturn of the high tech industry. The new apartment complexes that are being built out within the District boundaries are not expected to initially yield a large number of new students.
- On July 2, 2003, the State Allocation Board apportioned \$4,605,950 to the District for modernization projects at six school sites. If the voters approve the general obligation bond in March 2004, the District will have the funds available for the required District matching amount. With the passage of the general obligation bond, the District is planning on investing approximately \$28 million in capital assets through modernization and new construction projects.
- Unspent funds totaling \$2,701,449 in the Capital Facilities fund will be used to refinance the Certificates of Participation and for the construction of Charter School Facilities. The refinancing of the Certificates of Participation will decrease the annual debt service payment required due to the lower interest rates that are available at this time.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact William Jackson, Assistant Superintendent of Business Services, Rincon Valley Union Elementary School District, 1000 Yulupa Avenue, Santa Rosa, California, 95405.

	Governmental Activities
<u>Assets</u>	
Cash (Note 2)	\$ 6,771,887
Receivables (Note 4)	1,229,646
Stores Inventory (Note 1J)	30,881
Capital Assets: (Note 6)	
Land	1,122,363
Sites and Improvements	680,379
Buildings and Improvements	12,156,276
Furniture and Equipment	869,346
Work-in-Progress	13,905
Less: Accumulated Depreciation	(5,463,102)
Total Assets	17,411,801
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	863,907
Deferred Revenue (Note 1J)	178,132
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Certificates of Participation (Note 7)	95,000
Capital Leases (Note 8)	66,875
Other Post Employment Benefits (Note 9)	94,970
<i>Portion Due or Payable After One Year:</i>	
Compensated Absences (Note 1J)	111,010
Certificates of Participation (Note 7)	4,470,000
Capital Leases (Note 8)	8,981
Other Post Employment Benefits (Note 9)	320,575
Total Liabilities	6,209,350
<u>Net Assets</u>	
Investment In Capital Assets, Net of Related Debt	4,743,695
Restricted:	
For Capital Projects	3,243,185
For Debt Service	332,959
For Educational Purposes	45,532
For Other Purposes	32,381
Unrestricted	2,804,499
Total Net Assets	\$ 11,202,251

RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Governmental Activities	
	2003	2002
	Land	\$ 1,122,383
Sites and Improvements	680,379	680,379
Buildings and Improvements	12,166,276	12,110,981
Furniture and Equipment	869,346	869,346
Work in Progress	13,905	0
Subtotals	14,842,289	14,783,089
Less: Accumulated Depreciation	(5,463,102)	(5,121,757)
Capital Assets, net	<u>\$ 9,379,187</u>	<u>\$ 9,661,332</u>

The District invested \$59,200 in buildings and improvements during fiscal year 2002-03. Capital assets, net of depreciation, decreased by \$282,145, due to the increased amount of accumulated depreciation.

OUTSTANDING DEBT AT YEAR END

	Governmental Activities	
	2003	2002
	Compensated Absences	\$ 111,010
Certificates of Participation	4,655,000	4,655,000
Capital Leases	75,856	190,610
Other Post Employment Benefits	415,645	232,035
Totals	<u>\$ 5,167,411</u>	<u>\$ 5,158,141</u>

RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

Outstanding debt increased by \$9,270. Other Post Employment Benefits are District payments for retired employees insurance. The ten-year projection of funds required to pay for these post employment benefits increased by \$183,510. Compensated absences have increased by \$30,514 due to a combination of increases in employee pay rates and the amount of unused vacation time owed to employees.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

Comparative Schedule of Fund Balances			
	Fund Balances June 30, 2003	Fund Balances June 30, 2002	Increase (Decrease)
General	\$ 1,851,839	\$ 2,190,256	\$ (338,417)
Deferred Maintenance	112,205	109,247	2,958
Cafeteria	223,783	216,980	6,803
Child Development	173,157	323,035	(149,878)
Special Revenue - Special Reserve	1,047,443	1,202,605	(155,162)
Retiree Benefits	13,390	14,470	(1,080)
Capital Facilities	2,701,449	2,685,175	16,274
Building	541,736	539,889	1,847
Capital Projects - Special Reserve	324,933	369,173	(44,240)
Totals	<u>\$ 6,989,935</u>	<u>\$ 7,650,830</u>	<u>\$ (660,895)</u>

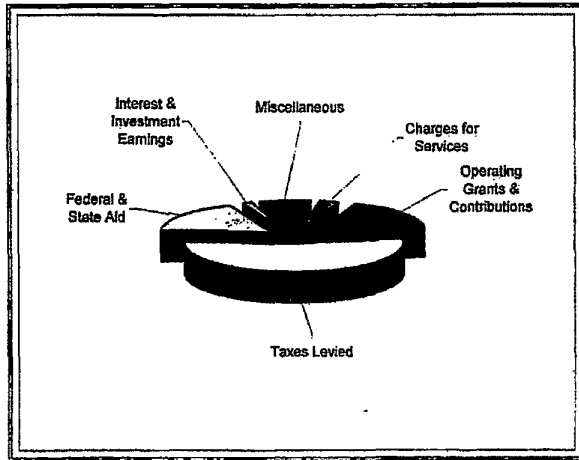
RINCON VALLEY UNION SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions				
	FYE 2003 Amount	Percent of Total	Increase (Decrease) from FYE 2002	Percent Increase (Decrease)
Program Revenues:				
Charges for Services	\$ 587,254	2.90%	\$	
Operating Grants & Contributions	3,426,443	16.94%		
General Revenues:				
Taxes Levied	10,833,135	53.57%		
Federal and State Aid	3,586,679	17.73%		
Interest and Investment Earnings	276,098	1.37%		
Miscellaneous	1,513,941	7.49%		
Total Revenues	\$ 20,223,448	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.



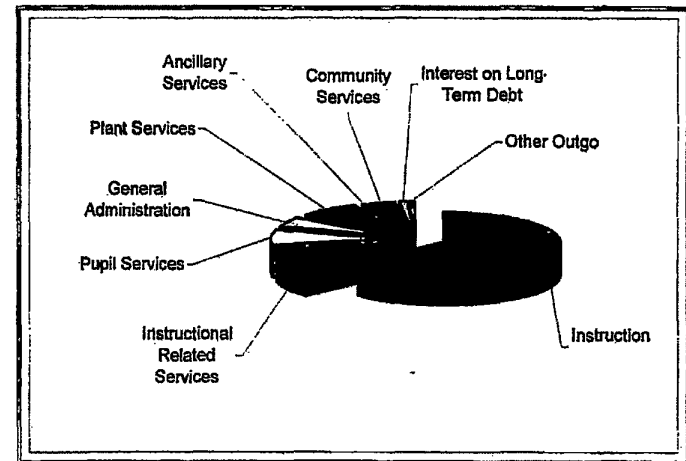
RINCON VALLEY UNION SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions				
	FYE 2003 Amount	Percent of Total	Increase (Decrease) from FYE 2002	Percent Increase (Decrease)
Expenses				
Instruction	\$ 13,425,859	63.40%	\$	
Instruction Related Services	1,884,090	8.90%		
Pupil Services	1,758,916	8.31%		
General Administration	1,101,334	5.20%		
Plant Services	1,849,279	8.73%		
Ancillary Services	7,966	0.04%		
Community Services	759,123	3.58%		
Interest on Long-Term Debt	236,748	1.12%		
Other Outgo	151,903	0.72%		
Total Expenses	\$ 21,175,218	100.00%	\$ ****	****

**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.



RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Comparative Statement of Revenues and Expenses			
	Governmental Activities		
	2003	2002	
Program Revenues:			
Charges for Services	\$ 587,254	\$	
Operating Grants and Contributions	3,426,443		
General Revenues:			
Taxes Levied	10,833,136		
Federal and State Aid	3,586,579		
Interest and Investment Earnings	276,096		
Miscellaneous	1,513,941		
Total Revenues	20,223,448		****
Program Expenses:			
Instruction	13,425,859		
Instruction-Related Services	1,884,090		
Pupil Services	1,758,916		
General Administration	1,101,334		
Plant Services	1,849,279		
Ancillary Services	7,966		
Community Services	759,123		
Interest on Long-Term Debt	236,748		
Other Outgo	151,903		
Total Expenses	21,175,218		****
Change in Net Assets	\$ (951,770)	\$	****

Table includes the financial data of the combined governmental funds

*** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Overall revenues decreased \$954,699 (4.5%) mainly due to decreased Developer Fee Revenues. The decrease in State Apportionments is offset by an increase in Local Sources that reflect higher local property tax assessments.

Total expenses increased \$129,575 during fiscal year 2002-03. The District's expenses were predominantly related to educating and caring for students (85.8%).

Comparative Schedule of Costs of Services						
	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2003	2002		2003	2002	
Instruction	\$ 13,425,859	\$		\$ (10,981,007)	\$	
Instruction Related Services	1,884,090			(1,788,726)		
Pupil Services	1,758,916			(476,177)		
General Administration	1,101,334			(1,033,289)		
Plant Services	1,849,279			(1,726,563)		
Ancillary Services	7,966			(7,966)		
Community Services	759,123			(759,123)		
Interest on Long-Term Debt	236,748			(236,748)		
Other Outgo	151,903			(151,903)		
Totals	\$ 21,175,218	\$	****	\$ (17,161,521)	\$	****

Table includes the financial data of the combined governmental funds

*** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.

The above table presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$17,161,521 net cost shows the financial burden that was placed on the District's general revenues for providing the services listed above. Further detail is available on page 15 of the audit.

**RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

The basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition and child development are also included here, but are financed by a combination of state and federal revenues and local revenues.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds:

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds

The major governmental funds of the Rincon Valley Union School District are the General Fund, Special Revenue - Special Reserve Fund, and Capital Facilities Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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 operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has no funds of this type.

Fiduciary Funds

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Fiduciary Statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets decreased from \$12,154,021 at June 30, 2002 to \$11,202,251 at June 30, 2003, or 7.8%.

	Governmental Activities	
	2003	2002
<u>Assets:</u>		
Cash	\$ 6,771,887	\$
Receivables	1,229,646	
Inventories	30,881	
Capital Assets, net	9,379,187	
Total Assets	17,411,601	****
<u>Liabilities:</u>		
Other Liabilities	1,041,939	
Long-term Debt Outstanding	5,167,411	
Total Liabilities	6,209,350	****
<u>Net Assets:</u>		
Invested in Capital Assets		
- Net of Related Debt	4,743,695	
Restricted	3,654,057	
Unrestricted	2,804,499	
Total Net Assets	\$ 11,202,251	\$ ****
<small>Table includes the financial data of the combined governmental funds</small>		
<small>**** This is the first year the District has been required to present financial statements in accordance with GASB Statement 34. Accordingly, comparative financial information will not be presented in the District's annual audit report until fiscal year 2003-04.</small>		

With the passage of a general obligation bond in March 2004 and the receipt of State School Facilities Modernization funding, the District is planning a series of modernization and new construction projects that will increase capital assets by approximately \$28 million.

RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

This section of the Rincon Valley Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 through 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's total net assets were \$11,202,251. In future years, increases or decreases in net assets from the previous year will be an indication of an improvement or deterioration of the District's financial status.
- Total current year expenditures exceeded total current year revenues by \$660,895, primarily due to expenditures in the General, Deferred Maintenance and Retiree Benefits Funds.
- Capital assets, net of depreciation, decreased by \$282,145 due primarily to current year depreciation.
- Long-term debt increased by \$9,270.
- Enrollment in the District increased by 1%. This has caused funding to remain fairly constant.
- This is the first year that capital asset balances have been included in the financial statements of the District as mandated by the Governmental Accounting Standards Board.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2002-03, General Fund expenditures and other financing uses totaled \$18,622,925, excluding state on-behalf payments. At June 30, 2003, the District has available reserves of \$1,215,810 in the General Fund, which represents a reserve of 6.5%.

RINCON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the District-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

Board of Trustees
Rincon Valley Union School District
Page Two

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rincon Valley Union School District
1000 Yulupa Avenue
Santa Rosa, CA 95405

We have audited the accompanying financial statements of the governmental activities and each major fund of the Rincon Valley Union School District, as of and for the fiscal year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rincon Valley Union School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Education Code Section 33128.1, management has chosen to recognize for General Fund budgetary and financial reporting purposes, state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 revenue that is available for payment of fiscal year 2002-03 expenditures. Contrary to this practice, accounting principles generally accepted in the United States of America prohibit similar revenues from being recognized for budgetary or financial reporting purposes until the funds have been appropriated by the state legislature. The effect of this departure on the financial position and changes in financial position of the General Fund is not reasonably determined.

In our opinion, except for the effects of recognizing state apportionments deferred from fiscal year 2002-03 and appropriated during fiscal year 2003-04, as fiscal year 2002-03 General Fund revenues that are available for payment of fiscal year 2002-03 expenditures, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of the Rincon Valley Union School District, as of June 30, 2003, and the changes in financial position of the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, Special Revenue - Special Reserve Fund, Capital Facilities Fund, and remaining fund information for the Rincon Valley Union School District, as of June 30, 2003, and the changes in financial position of those activities and funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on pages 39 and 40 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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.

As described in Note 1C, the Rincon Valley Union School District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2003, on our consideration of the Rincon Valley Union School District's internal control over financial reporting and our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

October 29, 2003

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RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT

**Excerpts from Audited Financial Statements
June 30, 2003**

District: Rincon Valley Union Elementary School District
Tax and Revenue Anticipation Notes

EXHIBIT I
ACTUAL CASH FLOW

(Actuals through January 2004, Projected February through June 2004)

GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Receipts													
Revenue Limit: Property Tax	1,494	0	0	0	368,303	4,940,902	67,574	0	0	5,219,401	0	0	\$
Revenue Limit: State Aid	139,398	235,567	166,651	166,651	166,651	166,651	166,651	121,785	91,339	91,339	91,339	(81,711)	\$
Other Receipts	787,028	166,991	139,360	569,853	208,139	828,806	465,982	374,763	432,499	809,918	432,499	1,990,587	\$
Note Proceeds	3,636,481	0	0	0	0	0	0	0	0	0	0	35,319	\$
Total Receipts	\$ 4,544,399	\$ 402,558	\$ 166,651	\$ 736,504	\$ 574,893	\$ 6,336,352	\$ 639,537	\$ 776,552	\$ 934,307	\$ 6,030,657	\$ 414,837	\$ 2,034,195	\$
Disbursements													
Salaries and Benefits	210,073	320,364	1,348,417	1,344,705	1,353,551	1,369,416	1,351,150	1,382,155	1,381,065	1,381,065	1,381,065	1,389,401	\$
Other Disbursements	539,330	400,612	172,072	783,521	257,137	318,736	298,534	293,540	293,540	293,540	293,540	763,536	\$
Note Payment Pledge	0	0	0	0	0	0	1,440,000	0	0	1,440,000	791,800	0	\$
Total Disbursements	\$ 749,403	\$ 720,976	\$ 1,520,489	\$ 2,128,226	\$ 1,610,688	\$ 1,688,152	\$ 2,789,684	\$ 1,675,695	\$ 1,674,605	\$ 3,104,605	\$ 2,466,405	\$ 2,152,937	\$
Net Increase/Decrease	\$ 3,794,996	\$ (318,418)	\$ (353,838)	\$ (391,722)	\$ (103,795)	\$ (348,832)	\$ (1,150,147)	\$ (900,143)	\$ (740,298)	\$ (2,073,948)	\$ (2,051,568)	\$ (118,742)	\$
Ending Cash	\$ 6,294,996	\$ 5,876,578	\$ 5,522,740	\$ 5,131,018	\$ 4,927,223	\$ 4,578,391	\$ 3,428,244	\$ 2,528,101	\$ 1,787,803	\$ (316,802)	\$ (1,644,837)	\$ (1,761,679)	\$

EXHIBIT II
PROJECTED CASHFLOW
GENERAL FUND

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Receipts													
Revenue Limit: Property Tax	1,500	0	0	0	146,778	4,960,693	67,845	0	0	5,240,307	0	0	\$
Revenue Limit: State Aid	91,339	182,677	121,785	121,785	121,785	121,785	121,785	215,156	107,578	107,578	219,078	219,078	\$
Other Receipts	59,786	112,314	137,038	480,127	143,527	791,635	373,347	360,627	419,660	747,400	419,660	1,528,039	\$
Note Proceeds	2,520,550	0	0	0	0	0	0	0	0	0	0	41,776	\$
Total Receipts	\$ 3,181,175	\$ 294,991	\$ 137,823	\$ 601,912	\$ 271,330	\$ 6,153,113	\$ 542,977	\$ 675,803	\$ 826,238	\$ 6,095,285	\$ 638,738	\$ 1,789,903	\$
Disbursements													
Salaries and Benefits	212,815	324,502	1,358,683	1,354,663	1,363,637	1,379,971	1,361,126	1,392,334	1,391,211	1,391,211	1,391,211	1,401,751	\$
Other Disbursements	65,176	303,661	233,909	311,658	406,768	261,069	209,634	266,685	266,685	266,685	266,685	524,608	\$
Note Payment Pledge	0	0	0	0	0	0	1,000,000	0	0	1,000,000	562,326	0	\$
Total Disbursements	\$ 277,991	\$ 628,163	\$ 1,592,592	\$ 1,666,321	\$ 1,770,405	\$ 1,641,040	\$ 2,370,760	\$ 1,659,019	\$ 1,657,901	\$ 3,653,896	\$ 2,220,222	\$ 1,926,359	\$
Net Increase/Decrease	\$ 2,903,184	\$ (333,172)	\$ (454,769)	\$ (106,409)	\$ (149,075)	\$ (487,867)	\$ (1,827,783)	\$ (983,216)	\$ (831,663)	\$ (2,558,611)	\$ (1,581,484)	\$ (136,456)	\$
Ending Cash	\$ 5,403,184	\$ 5,066,812	\$ 4,612,043	\$ 4,505,634	\$ 4,356,559	\$ 3,868,692	\$ 2,040,909	\$ 1,057,693	\$ 226,030	\$ (327,865)	\$ (1,892,738)	\$ (2,062,815)	\$

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose, but may be accessed on a temporary basis by Board action. For a more detailed description of the transfer of restricted fund monies, see "THE NOTES – Other District Funds" herein.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT Other District Funds

<u>Fund</u>	June 30, 2003, <u>Balance^(a)</u>	June 30, 2004, <u>Estimated Balance^(b)</u>	June 30, 2005, <u>Estimated Balance^(c)</u>
Special Revenue Funds			
Cafeteria	\$ 223,783	\$ 173,040	\$ 85,824
Child Development	173,157	200,360	259,951
Deferred Maintenance	112,205	108,026	103,899
Retiree Benefit Fund	13,390	13,390	0
Special Reserve	1,047,443	815,443	840,443
Subtotal for Special Revenue Funds	<u>1,569,978</u>	<u>1,310,259</u>	<u>1,290,117</u>
Capital Project Funds			
Building	541,736	28,211	2,321,966
Capital Facilities	2,701,449	1,215,177	973,879
Special Reserve (Capital)	324,933	501,376	545,786
Subtotal for Capital Project Funds	<u>3,568,118</u>	<u>1,744,764</u>	<u>3,841,631</u>
Total Alternate Liquidity	<u>\$5,138,095</u>	<u>\$3,055,024</u>	<u>\$5,131,748</u>

(a) Audited Financial Statement.

(b) Second Interim Report adopted on March 9, 2004.

(c) The District.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because secured tax installment payment dates are in December and April.

Exhibit I which follows shows fiscal year 2003/04 actual cash receipts and disbursements through January 2004, and estimates for the remainder of the fiscal year. Exhibit II which follows shows projected cash receipts and disbursements for fiscal year 2004/05 when the Notes will be outstanding. The projected cash flows for fiscal year 2004/05 take into account the receipt and payment of the Notes.

District Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 1, 2003, the District issued \$3,600,000 tax and revenue anticipation notes due June 30, 2004. The notes are general obligations of the District, secured and payable from general fund revenues received during or allocable to, the 2003/04 fiscal year.

Long-Term Obligations. For a description of the District's long-term debt, see "**RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT — Excerpts from Audited Financial Statements, June 30, 2003.**"

In addition to the long-term debt listed in the Audited Financial Statement, June 30, 2003, the District issued General Obligation Bonds, Election of 2004, Series 2004 in the amount of \$16,500,000 on June 3, 2004.

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2005, provides coverage of 1.82 times the principal and interest due on the Notes at maturity. See "**THE NOTES — Security and Sources of Payment**" herein.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT	
Note Coverage Ratio	
<u>Source</u>	<u>Amount</u>
Projected Beginning Cash Balance, July 1, 2004	\$ 2,054,567
Projected 2004/05 Cash Receipts (Including Note Proceeds)	20,304,017
Less Projected 2004/05 Disbursements (Excluding Note Repayment)	<u>(17,706,342)</u>
Balance	\$ 4,652,242
Note Repayment	\$ 2,562,326
NOTE COVERAGE RATIO	1.82 : 1

Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2000/01 to budget year 2004/05:

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT General Fund Revenues, Expenditures and Fund Balances

	Actuals 2000/01 ^(a)	Actuals 2001/02 ^(a)	Actuals 2002/03 ^(a)	Estimated Actuals 2003/04 ^(b)	Projected Budget 2004/05 ^(b)
Revenues					
Revenue Limit Sources:				\$12,119,983	\$12,168,531
State Aid	\$ 2,882,778	\$ 2,684,910	\$ 1,900,135		
Property Taxes	8,375,981	9,206,143	10,354,679		
Federal Revenue	621,829	707,274	772,955	943,548	819,352
Other State Revenue	3,921,822	3,216,954	3,009,636	3,000,575	2,786,075
Other Local Revenue	2,368,030	2,170,954	1,937,103	1,924,527	1,967,733
Total Revenues	18,170,440	17,986,235	17,974,508	17,988,632	17,741,691
Expenditures					
Certificated Salaries	9,308,687	9,248,277	9,239,389	9,323,838	9,318,980
Classified Salaries	2,725,378	2,757,942	2,669,703	2,355,970	2,395,621
Employee Benefits	2,379,604	2,403,602	2,541,522	2,532,617	2,608,516
Books and Supplies	990,587	794,259	1,323,825	987,924	602,515
Services, Other Operating Expenses	2,049,179	2,491,731	2,569,666	2,534,557	2,408,619
Capital Outlay	255,926	684,100	10,384	182,960	22,091
Other Outgo	244,120	230,634	112,474	167,000	167,000
Total Expenditures	17,953,481	18,610,545	18,466,963	18,084,866	17,523,342
Other Financing Sources / (Uses)					
Interfund Transfers In / Other Sources	88,000	533,939	310,000	132,000	0
Interfund Transfers Out / Other Uses	(131,500)	(137,415)	(155,959)	(183,000)	(183,000)
Total Other Financing Sources/(Uses)	(43,500)	396,524	154,041	(51,000)	(183,000)
Excess of Revenues Over (Under) Expenditures	173,459	(227,786)	(338,415)	(147,234)	35,349
Beginning Fund Balance	2,144,859	2,318,318	2,190,265	1,851,850	1,704,616
Prior Year Adjustments	0	99,733	0	0	0
Ending Fund Balance	\$ 2,318,318	\$ 2,190,265	\$ 1,851,850	\$ 1,704,616	\$ 1,739,965

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 9, 2004.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT
Revenue Limit Income

<u>Fiscal Year</u>	<u>Revenue Limit Income</u>	<u>Percent of General Fund Revenues</u>
2000/01 ^(a)	\$11,258,759	61.96%
2001/02 ^(a)	11,891,053	66.11
2002/03 ^(a)	12,254,814	68.18
2003/04 ^(b)	12,119,983	67.38
2004/05 ^(b)	12,168,531	68.59

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 9, 2004.

The largest part of each school district's general fund expenditures are used to pay certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increase, normal movement of "step and column" on the salary scale results in increased expenditures (if no other staffing changes are made).

The District expects a reduction of two full-time equivalent certificated and no change in the number of full-time equivalent classified employees for the 2004/05 fiscal year. The District expects a 0% negotiated salary increase for certificated employees, and a 0% negotiated salary increase for classified employees for the 2004/05 fiscal year. Overall salaries and benefits are projected to increase by .78% in the 2004/05 fiscal year.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT
Salaries and Benefits

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Percent of General Fund Expenditures</u>
2000/01 ^(a)	\$14,413,669	80.28%
2001/02 ^(a)	14,409,821	77.43
2002/03 ^(a)	14,450,615	78.25
2003/04 ^(b)	14,212,425	78.59
2004/05 ^(b)	14,323,117	81.74

^(a) Audited Financial Statements.

^(b) Second Interim Report adopted on March 9, 2004.

Labor Relations

The District employs 151 full-time equivalent certificated and 110 full-time equivalent classified employees. There are two formal bargaining organizations that are active in the District.

RINCON VALLEY UNION ELEMENTARY SCHOOL DISTRICT Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	148	June 30, 2004 ^(a)
California Teachers Association	163	June 30, 2004 ^(a)

^(a) Negotiations pending.

Source: The District.

Investment of District Funds

Substantially all of the District's operating funds are held by the Sonoma County Treasurer and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See "APPENDIX F — SONOMA COUNTY — COUNTY INVESTMENT PORTFOLIO REPORT" herein.

2004/05 Budget Assumptions

The comparative financial tables and cash flows that follow are based on preliminary budget estimates provided by the District. In accordance with provisions of the State Education Code, the District must adopt a budget on or before July 1 of each year. Subsequent to July 1, copies of the District's adopted budget will be available upon request to the District.

The largest part of each school district's general fund revenues are received from revenue limit sources. Each school district calculates its own revenue limit per unit of A.D.A. according to State formula. The revenue limit defines the fixed amount of general purpose revenue a school district receives from local property taxes and State aid. Property taxes that are paid toward the revenue limit are based on a school district's portion of the one percent *ad valorem* tax levy on real property collected by each county. State aid is an amount equal to the difference between the calculated revenue limit and the amount of local property taxes received. Except for basic aid districts, changes in revenue limit income received from year to year are generally based on the cost of living adjustment to the revenue limit ("COLA") established by the State and the year to year growth in A.D.A. The District is not a basic aid district. The District has assumed A.D.A. growth as reflected in the table above, and 1.84% COLA for the 2004/05 revenue limit income in the table below. See "GENERAL SCHOOL DISTRICT INFORMATION— State Funding of Education" and "— Average Daily Attendance" herein.