

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

AUDIT REPORT

JUNE 30, 2005

**WILKINSON HADLEY & CO. LLP
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707**

Introductory Section

Cajon Valley Union School District
 Audit Report
 For The Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	9	Exhibit A-1
Statement of Activities.....	10	Exhibit A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	11	Exhibit A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	13	Exhibit A-4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	14	Exhibit A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....		
Statement of Net Assets - Internal Service Fund.....	17	Exhibit A-7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Fund.....	18	Exhibit A-8
Statement of Cash Flows - Proprietary Funds.....	19	Exhibit A-9
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20	Exhibit A-10
Notes to the Financial Statements	21	
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	33	Exhibit B-1
Cafeteria Fund.....	34	Exhibit B-2
 <u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	35	Exhibit C-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Nonmajor Governmental Funds.....	36	Exhibit C-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	37	Exhibit C-3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.....	38	Exhibit C-4
 Capital Projects Funds:		
Combining Balance Sheet - Nonmajor Capital Projects Funds.....	39	Exhibit C-5
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Projects Funds.....	40	Exhibit C-6

Cajon Valley Union School District
 Audit Report
 For The Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
FINANCIAL SECTION		
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Average Daily Attendance.....	41	Table D-1
Schedule of Instructional Time.....	42	Table D-2
Schedule of Financial Trends and Analysis.....	43	Table D-3
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements.....	44	Table D-4
Schedule of Charter Schools.....	45	Table D-5
Schedule of Expenditures of Federal Awards	46	Table D-6
Notes to the Schedule of Expenditures of Federal Awards.....	47	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48	
Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133.....	49	
Auditor's Report on State Compliance.....	51	
Schedule of Findings and Questioned Costs	53	
Summary Schedule of Prior Audit Findings.....	56	

Financial Section

WILKINSON HADLEY & CO. LLP
CPAs and Advisors
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707

Independent Auditor's Report on Financial Statements

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

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cajon Valley Union School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cajon Valley Union School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cajon Valley Union School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of Cajon Valley Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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

Wilkinson Hadley & Co., LLP

Wilkinson Hadley & Co., LLP
October 21, 2005

**CAJON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)**

This discussion and analysis of the Cajon Valley Union School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the district's financial performance.

USING THESE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- Despite ongoing financial difficulties in State and local funding, the District ended the 2004/05 year with a strong unrestricted reserve balance of \$7,260,032 in the General Fund, an increase of \$2,904,975 from the previous year.
- Outstanding Capital Lease-Purchase Debt decreased by \$911,263, from \$2,557,423 to \$1,646,160, during the 2004/05 fiscal year.
- The District's total net assets increased by 23.5%, from \$122,494,093 in 2004, to \$151,282,674 in 2005.
- \$1.8 million in ongoing budget reductions were implemented, effective July, 2004. In addition, \$936,559 in ongoing budget reductions and revenue enhancements were approved by the Governing Board for implementation in the 2005/06 school year. The primary factors determining the need for ongoing budget reductions are continued decline in student population, which affects revenue calculations, and deficits applied to State revenue limit and categorical program funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

Statement of Net Assets and Statement of Activities

While this document contains several funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004-2005?" 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 records all of the current year's earned revenues and expenses regardless of when cash is received or disbursed.

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT INDIVIDUAL FUNDS

Fund Financial Statements

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

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

CAJON VALLEY UNION SCHOOL DISTRICT AS A COMPLETE FINANCIAL ENTITY

The Statement of Net Assets provides a perspective of the district as a whole. Table I provides a summary of the district's net assets as of June 30, 2005, compared with net assets as of the end of the previous two fiscal years.

Table 1
Statement of Net Assets

	6/30/05	6/30/04	% Change 6/04 to 6/05	6/30/03	% Change 6/03 to 6/04
Assets					
Cash	47,422,974	46,600,987	1.8%	32,889,963	41.7%
Investments	-	-	-	-	-
Receivables	12,328,984	9,953,943	23.9%	27,450,385	-63.7%
Due from Other Funds	-	-	-	-	-
Stores	311,031	260,047	19.6%	283,323	-7.2%
Prepaid Expenses	445,101	325,845	36.6%	-	-
Capital Assets:					
Land	3,207,994	3,207,994	0%	3,207,994	0%
Sites and Improvements	6,763,346	5,699,222	18.7%	5,334,274	6.8%
Buildings and Improvements	153,508,325	145,160,021	5.8%	130,575,480	11.2%
Equipment	4,061,503	3,606,140	12.6%	3,473,400	3.8%
Work in Progress	38,240,459	19,884,551	92.3%	20,482,458	-2.9%
Less Accumulated Depreciation	<49,535,589>	<45,584,787>	8.7%	<41,860,592>	8.9%
Total Assets	\$216,754,128	\$189,113,963	14.6%	\$181,836,685	4.0%
Liabilities					
Accounts Payable and Other					
Current Liabilities	4,750,046	4,096,982	15.9%	3,662,987	11.8%
Due to Other Funds	-	-	-	-	-
Deferred Revenue	2,724,715	2,902,000	-6.1%	4,370,236	-33.6%
Long Term Liabilities:					
Due within one year	4,061,676	3,924,728	3.5%	3,115,118	26.0%
Due in more than one year	53,935,017	55,696,159	-3.2%	47,132,423	18.2%
Total Liabilities	\$65,471,454	\$66,619,869	-1.7%	\$58,280,764	14.3%
Net Assets					
Invested in capital assets, net of related debt	99,706,597	74,660,717	33.6%	70,965,473	5.2%
Restricted	44,324,071	44,483,382	-0.4%	48,877,561	-9.0%
Unrestricted	7,252,006	3,349,995	116.5%	3,712,887	-9.8%
Total Net Assets	\$151,282,674	\$122,494,094	23.5%	\$123,555,921	-0.9%

REVENUE AND EXPENDITURES FOR GOVERNMENTAL ACTIVITIES

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

The primary sources of general revenue are the state revenue limit and local property tax revenue. The primary sources of program revenue are the state of California and the federal government, which fund many programs operated by the district, and fees collected for meals and transportation. Table 2 shows revenue for the 2004/05 year, compared with revenue for the previous two years.

Table 2
Revenue – Governmental Activities

	2004/2005	2003/2004	2002/2003
General Revenue	\$100,633,699	\$98,352,556	\$97,471,341
Program Revenue & Fees for Services	<u>65,462,547</u>	<u>37,718,511</u>	<u>48,442,363</u>
Total Revenue	166,096,246	\$136,071,067	\$145,913,704

The primary activities that are required to operate our district schools can be summarized into the nine categories, or functions, listed below. Table 3 shows the expenditures for each function for the 2004/05 year, compared with expenditures for the previous two years.

Table 3
Expenditures – Governmental Activities

	2004/2005	2003/2004	2002/2003
Classroom Instruction	87,485,786	88,683,881	86,820,663
Instructional Related Services	13,372,366	12,911,571	14,234,660
Pupil Services	13,606,279	13,443,700	14,687,767
General Administration	8,120,748	9,052,687	7,836,821
Plant Services	10,983,450	9,959,775	10,731,870
Community Services	74,577	82,455	69,150
Enterprise Activities	215,289	81,369	--
Interest on Long Term Debt	2,581,700	2,217,256	1,637,877
Other Outgo	<u>867,470</u>	<u>700,201</u>	<u>597,962</u>
Total Expenditures	137,307,665	137,132,895	136,616,770

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

THE GENERAL FUND OPERATING BUDGET

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

During the course of the 2004/05 fiscal year, the district revised its general fund budget on occasion to better reflect new grants and awards, and to portray the most current state and federal budget projections, as that information became available. Budget revisions are presented to the Governing Board for review and approved at regularly scheduled Board meetings. A budgetary comparison schedule, showing the original and final budgets compared with actual income and expenditures, is shown in the "Required Supplementary Information" section of this audit report.

CAPITAL ASSETS

At the end of the 2004/05 fiscal year, the district had \$205,781,627 invested in land, buildings, work-in-progress, and capital equipment. Depreciation totaling \$49,535,589 was charged against the value of those assets for net capital assets of \$156,246,038. Net capital assets at the end of the 2003/04 year were \$131,973,141.

Since July, 2000 approximately \$42.5 million in capital improvement projects have been completed throughout the district with funds generated from general obligation bond proceeds, State grants and local funds. Completed projects include modernization of older classroom buildings, computer network upgrades, campus safety measures, library and multipurpose room expansions, playground improvements, lunch shade shelters and a variety of other school campus improvements. As of June 30, 2005 the District had issued \$45 million of the \$75 million in general obligation bonds that were authorized by the voters in 2000. An additional \$15 million in bonds was subsequently issued in August, 2005 to fund current projects.

Two significant school projects are currently underway and should be completed within the next two years. The first is the construction of Los Coches Creek Middle School in the Blossom Valley area. This campus is scheduled to open in the Fall of 2006. Students living in the very eastern portion of the district, who are currently traveling a significant distance to Greenfield Middle School, will be served by this new school. The second large project is a multi-phased remodel of Cajon Valley Middle School, involving new construction of a joint-use community gymnasium, construction of a new two-story classroom building to replace obsolete relocatable buildings, and renovation of permanent buildings.

CURRENT FINANCIAL RELATED ACTIVITIES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGERS

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

Basic Financial Statements

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 37,029,098
Cash on Hand and in Banks	907,224
Cash in Revolving Fund	15,000
Cash with a Fiscal Agent/Trustee	9,471,648
Accounts Receivable	12,328,988
Stores Inventories	311,031
Prepaid Expenses	445,101
Capital Assets:	
Land	3,207,994
Land Improvements	6,763,346
Buildings	153,508,325
Equipment	4,061,503
Work in Progress	38,240,459
Less Accumulated Depreciation	<u>(49,535,589)</u>
Total Assets	<u>216,754,128</u>
LIABILITIES:	
Accounts Payable	4,750,046
Deferred Revenues	2,724,715
Long-Term Liabilities:	
Due within One Year	4,061,675
Due in More Than One Year	<u>53,935,018</u>
Total Liabilities	<u>65,471,454</u>
NET ASSETS:	
Invested in Capital Assets, net of Related Debt	99,706,597
Restricted For:	
Capital Projects	29,728,326
Debt Service	2,125,230
Educational Programs	7,529,531
Other Purposes (Expendable)	697,935
Other Purposes (Nonexpendable)	4,243,049
Unrestricted	<u>7,252,006</u>
Total Net Assets	<u>\$ 151,282,674</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Government Activities:					
<i>Instruction</i>	\$ 87,485,786	\$ 190,755	\$ 24,531,394	\$ 23,471,155	\$ (39,292,482)
<i>Instruction-Related Services</i>	13,372,366	9,092	4,778,802	--	(8,584,472)
<i>Pupil Services</i>	13,606,279	2,002,317	7,635,069	--	(3,968,893)
<i>General Administration</i>	8,120,748	46,469	1,834,386	--	(6,239,893)
<i>Plant Services</i>	10,983,450	22,104	871,506	--	(10,089,840)
<i>Community Services</i>	74,577	--	--	--	(74,577)
<i>Enterprise Activities</i>	215,289	--	--	--	(215,289)
<i>Interest on Long-Term Debt</i>	2,581,700	--	--	--	(2,581,700)
<i>Other Outgo</i>	867,470	1,546	67,952	--	(797,972)
Total Governmental Activities	137,307,665	2,272,283	39,719,109	23,471,155	(71,845,118)
Total Primary Government	\$ 137,307,665	\$ 2,272,283	\$ 39,719,109	\$ 23,471,155	(71,845,118)
General Revenues:					
<i>Taxes and Subventions</i>					28,196,922
<i>Federal and State Revenues, not restricted</i>					66,795,109
<i>Interest and Investment Earnings</i>					783,417
<i>Miscellaneous</i>					4,858,251
Total General Revenues					100,633,699
Change in Net Assets					28,788,581
Net Assets - Beginning					122,494,093
Net Assets - Ending					\$ 151,282,674

The accompanying notes are an integral part of this statement.

Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,025,147	\$ 11,470,437	\$ 6,728,085	\$ 35,590,309
--	--	--	607,224
--	--	--	15,000
9,471,648	--	--	9,471,648
324,727	115,595	27,908	11,117,721
40,609	--	1,230	1,651,197
--	--	--	311,031
<u>\$ 14,862,131</u>	<u>\$ 11,586,032</u>	<u>\$ 6,757,223</u>	<u>\$ 58,764,130</u>
\$ 881,066	\$ 2,748	\$ 148,395	\$ 3,309,350
22,563	--	129,232	1,649,642
--	--	167,826	2,724,715
<u>903,629</u>	<u>2,748</u>	<u>445,453</u>	<u>7,683,707</u>
--	--	--	15,000
--	--	--	311,031
--	--	--	4,014,519
--	--	--	7,529,531
13,958,502	11,583,284	--	32,898,574
--	--	1,404,412	1,404,412
--	--	2,125,230	2,125,230
--	--	2,782,128	2,782,128
<u>13,958,502</u>	<u>11,583,284</u>	<u>6,311,770</u>	<u>51,080,423</u>
<u>\$ 14,862,131</u>	<u>\$ 11,586,032</u>	<u>\$ 6,757,223</u>	<u>\$ 58,764,130</u>

CAJON VALLEY UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds balance sheet	\$ 51,080,423
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation.	156,246,038
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	445,105
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:	(588,092)
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:	(56,419,476)
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:	<u>518,676</u>
Net assets of governmental activities - statement of net assets	\$ <u>151,282,674</u>

The accompanying notes are an integral part of this statement.

Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ --	\$ 57,818,437
--	--	--	25,305,731
--	--	3,851	16,980,441
--	22,751,426	2,877,749	44,835,545
<u>939,712</u>	<u>144,929</u>	<u>4,645,421</u>	<u>20,759,201</u>
<u>939,712</u>	<u>22,896,355</u>	<u>7,527,021</u>	<u>165,699,355</u>
--	--	1,354,343	84,445,420
--	--	97,649	13,135,158
--	--	--	13,368,426
--	--	--	74,602
--	--	250,105	8,029,197
14,122,029	11,681,726	2,827,038	38,474,334
--	--	--	867,471
569,879	--	705,000	1,735,519
<u>373,681</u>	<u>--</u>	<u>2,122,510</u>	<u>2,608,291</u>
<u>15,065,589</u>	<u>11,681,726</u>	<u>7,356,645</u>	<u>162,738,418</u>
<u>(14,125,877)</u>	<u>11,214,629</u>	<u>170,376</u>	<u>2,960,937</u>
54	--	639,993	640,047
--	--	(54)	(715,047)
<u>54</u>	<u>--</u>	<u>639,939</u>	<u>(75,000)</u>
(14,125,823)	11,214,629	810,315	2,885,937
<u>28,084,325</u>	<u>368,655</u>	<u>5,501,455</u>	<u>48,194,486</u>
<u>\$ 13,958,502</u>	<u>\$ 11,583,284</u>	<u>\$ 6,311,770</u>	<u>\$ 51,080,423</u>

CAJON VALLEY UNION SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 2,885,937

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	27,827,987	
Depreciation expense	<u>(3,950,802)</u>	
Net		23,877,185

Debt service: In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,735,519

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair-market value of capital assets donated was: 396,889

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the governmental-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 26,595

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 7,931

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were: (1,176)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (140,299)

Change in net assets of governmental activities - statement of activities \$ 28,788,581

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

JUNE 30, 2005

	Nonmajor Internal Service Fund	Self-Insurance Fund
ASSETS:		
Current Assets:		
<i>Cash in County Treasury</i>	\$ 1,438,789	
<i>Cash on Hand and in Banks</i>	300,000	
<i>Accounts Receivable</i>	<u>1,211,266</u>	
Total Current Assets	2,950,055	
Total Assets	<u>\$ 2,950,055</u>	
LIABILITIES:		
Current Liabilities:		
<i>Accounts Payable</i>	\$ 852,605	
<i>Due to Other Funds</i>	<u>1,556</u>	
Total Current Liabilities	<u>854,161</u>	
Noncurrent Liabilities:		
<i>Other General Long-Term Debt</i>	<u>1,577,217</u>	
Total Noncurrent Liabilities	<u>1,577,217</u>	
Total Liabilities	<u>2,431,378</u>	
NET ASSETS:		
<i>Unrestricted Net Assets</i>	<u>518,677</u>	
Total Net Assets	<u>\$ 518,677</u>	

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2005

	Nonmajor Internal Service Fund
	Self-Insurance Fund
Operating Revenues:	
Local Revenue	\$ 14,006,803
Total Revenues	<u>14,006,803</u>
Operating Expenses:	
Classified Personnel Salaries	30,318
Employee Benefits	15,904
Books and Supplies	28,233
Services and Other Operating Expenses	<u>14,147,647</u>
Total Expenses	<u>14,222,102</u>
Income (Loss) before Contributions and Transfers	(215,299)
Interfund Transfers In	<u>75,000</u>
Change in Net Assets	(140,299)
Total Net Assets - Beginning	658,976
Total Net Assets - Ending	<u>\$ 518,677</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Nonmajor Internal Service Fund
	Self Insurance Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 12,894,592
<i>Cash Payments to Other Suppliers for Goods and Services</i>	<u>(13,566,606)</u>
Net Cash Provided (Used) by Operating Activities	<u>(672,014)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Operating Transfers From (To) Primary Government</i>	<u>75,000</u>
Net Cash Provided (Used) by Non-capital Financing Activities	<u>75,000</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	<u>41,511</u>
Net Cash Provided (Used) for Investing Activities	<u>41,511</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(555,503)
Cash and Cash Equivalents at Beginning of Year	<u>2,294,292</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,738,789</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (140,299)
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(1,002,513)
<i>Increase (Decrease) in Accounts Payable</i>	655,497
<i>Increase (Decrease) in Due To</i>	<u>(68,188)</u>
Total Adjustments	<u>(415,204)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (555,503)</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2005

	Agency Fund
	Student Body Fund
ASSETS:	
<i>Cash on Hand and in Banks</i>	\$ 271,606
Total Assets	<u>\$ 271,606</u>
LIABILITIES:	
<i>Due to Student Groups</i>	\$ 271,606
Total Liabilities	<u>271,606</u>
NET ASSETS:	
Total Net Assets	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

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

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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

The District reports the following major governmental funds:

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

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

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

County School Facilities Fund. This fund was 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.

In addition, the District reports the following fund types:

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

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

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

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

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

b. Measurement Focus, Basis of Accounting

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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

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

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

3. Encumbrances

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

4. Assets, Liabilities, and Equity

a. Deposits and Investments

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

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

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

b. Stores Inventories and Prepaid Expenditures

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

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

c. Capital Assets

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

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

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

d. Receivable and Payable Balances

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

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

e. Compensated Absences

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

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

f. Deferred Revenue

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

g. Interfund Activity

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

h. Property Taxes

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

i. Fund Balance Reserves and Designations

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

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

j. Use of Estimates

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

C. Excess of Expenditures Over Appropriations

As of June 30, 2005 expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Community services	\$ 5,871
Cafeteria Fund:	
Pupil services	6,716

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$37,029,098 as of June 30, 2005). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$37,029,098. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$1,178,830 as of June 30, 2005) and in the revolving fund (\$15,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only 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. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

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. Capital Assets

Capital asset activity for the period ended June 30, 2005 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,207,994	\$ --	\$ --	\$ 3,207,994
Work in progress	19,884,551	27,769,512	9,413,604	38,240,459
Total capital assets not being depreciated	<u>23,092,545</u>	<u>27,769,512</u>	<u>9,413,604</u>	<u>41,448,453</u>
<i>Capital assets being depreciated:</i>				
Buildings	145,160,021	8,348,304	--	153,508,325
Land improvements	5,699,222	1,064,124	--	6,763,346
Equipment	3,606,140	455,363	--	4,061,503
Total capital assets being depreciated	<u>154,465,383</u>	<u>9,867,791</u>	<u>--</u>	<u>164,333,174</u>
Less accumulated depreciation for:				
Buildings	(39,011,698)	(3,340,078)	--	(42,351,776)
Land improvements	(4,083,141)	(177,535)	--	(4,260,676)
Equipment	(2,489,948)	(433,189)	--	(2,923,137)
Total accumulated depreciation	<u>(45,584,787)</u>	<u>(3,950,802)</u>	<u>--</u>	<u>(49,535,589)</u>
Total capital assets being depreciated, net	<u>108,880,596</u>	<u>5,916,989</u>	<u>--</u>	<u>114,797,585</u>
Governmental activities capital assets, net	<u>\$ 131,973,141</u>	<u>\$ 33,686,501</u>	<u>\$ 9,413,604</u>	<u>\$ 156,246,038</u>

CAJON VALLEY UNION SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Depreciation was charged to functions as follows:

Instruction	\$ 3,123,903
Instruction-Related Services	264,930
Pupil Services	282,335
General Administration	119,801
Plant Services	159,833
	<u>\$ 3,950,802</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2005 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General Fund	Child Development Fund	\$ 106,529
General Fund	Cafeteria Fund	1,491,845
General Fund	Capital Facilities Fund	4,657
General Fund	Self Insurance Fund	1,556
Cafeteria Fund	General Fund	4,771
Building Fund	Capital Facilities Fund	400
Child Development Fund	General Fund	1,230
Building Fund	Building Fund	22,563
Building Fund	State School Building Fund	17,646
	Total	<u>\$ 1,651,197</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, 2005 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General Fund	Self Insurance Fund	\$ 75,000
Capital Facilities Fund	Building Fund	46
Special Reserve Fund	Building Fund	8
General Fund	Deferred Maintenance Fund	639,993
	Total	<u>\$ 715,047</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.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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, 2005 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 44,575,000	\$ --	\$ 705,000	\$ 43,870,000	795,000
Capital leases	2,557,423	--	911,263	1,646,160	451,142
Certificates of participation	10,180,000	--	--	10,180,000	515,000
Other long-term debt	1,577,217	6,185,699	6,185,699	1,577,217	1,577,217
Compensated absences *	731,247	--	7,931	723,316	723,316
Total governmental activities	\$ 59,620,887	\$ 6,185,699	\$ 7,809,893	\$ 57,996,693	\$ 4,061,675

* Other long-term liabilities

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

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt, net of certificates of participation, at June 30, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,546,675	\$ 2,155,744	\$ 5,702,419
2007	1,207,654	2,080,629	3,288,283
2008	1,206,210	2,005,991	3,212,201
2009	1,263,503	1,931,739	3,195,242
2010	1,152,651	1,858,122	3,010,773
2011-2015	5,585,000	8,568,052	14,153,052
2016-2020	6,925,000	7,282,212	14,207,212
2021-2025	8,785,000	5,508,491	14,293,491
2026-2030	11,115,000	3,129,902	14,244,902
2031-2035	7,030,000	502,134	7,532,134
Totals	\$ 47,816,693	\$ 35,023,016	\$ 82,839,709

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2005, as follows:

<u>Year Ending June 30:</u>	
2006	\$ 538,839
2007	428,910
2008	361,048
2009	364,234
2010	182,927
Total Minimum Lease Payments	1,875,958
Less Amounts Representing Interest	(229,798)
Net Present Value of Minimum Lease Payments	\$ 1,646,160

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

4. Certificates of Participation

Future commitments for certificates of participation as of June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 515,000	\$ 347,277	\$ 862,277
2007	590,000	334,403	924,403
2008	660,000	319,652	979,652
2009	735,000	303,153	1,038,153
2010	820,000	281,102	1,101,102
2011-2015	5,455,000	934,145	6,389,145
2016-2020	1,405,000	56,200	1,461,200
Totals	<u>\$ 10,180,000</u>	<u>\$ 2,575,932</u>	<u>\$ 12,755,932</u>

I. Joint Ventures (Joint Powers Agreements)

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

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

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2005 is as follows:

Total Assets	\$ 2,104,589
Total Liabilities	3,379,337
Total Fund Balance	(1,274,748)
Total Cash Receipts	2,770,971
Total Cash Disbursements	2,291,848
Net Change in Fund Balance	479,123

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.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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 2004-05 was 9.952% 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, 2005, 2004 and 2003 were \$1,806,306, \$1,883,921 and \$558,497, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$16,698.

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 2004-05 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, 2005, 2004 and 2003 were \$5,020,432, \$5,027,427 and \$5,410,483, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$3,065,813.

K. Postemployment Benefits Other Than Pension Benefits

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

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2005, expenditures of \$1,531,588 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.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

M. Risk Management

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

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of \$1,577,217 is included in the liabilities under general long-term debt and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2005 are indicated below:

Internal Service Fund:	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Year 2004-05	\$ <u>1,577,217</u>	\$ <u>6,185,699</u>	\$ <u>6,185,699</u>	\$ <u>1,577,217</u>

N. Subsequent Events

In July 2005, the District issued General Obligation Bonds in the amount of \$15,000,000. Proceeds from the sale of the bonds will be used to finance additional classrooms and repair and upgrade existing facilities. The bonds bear interest at a rate of 2.50%-4.50% and mature on August 1, 2034.

Required Supplementary Information

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

CAJON VALLEY UNION SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 46,640,827	\$ 59,073,000	\$ 57,818,437	\$ (1,254,563)
Local Sources	35,623,618	23,972,498	25,305,731	1,333,233
Federal Revenue	11,165,388	15,556,015	13,681,145	(1,874,870)
Other State Revenue	16,250,863	19,589,234	18,740,226	(849,008)
Other Local Revenue	12,035,292	11,739,301	13,205,449	1,466,148
Total Revenues	<u>121,715,988</u>	<u>129,930,048</u>	<u>128,750,988</u>	<u>(1,179,060)</u>
Expenditures:				
Instruction	80,627,887	91,153,727	83,091,077	8,062,650
Instruction - Related Services	12,992,799	14,142,804	13,037,509	1,105,295
Pupil Services	8,467,193	9,041,458	8,034,769	1,006,689
Community Services	68,731	68,731	74,602	(5,871)
General Administration	7,688,458	9,643,660	7,677,726	1,965,934
Plant Services	9,961,532	9,929,718	9,776,764	152,954
Other Outgo	1,469,156	1,582,463	867,471	714,992
Debt Service:				
Principal	614,490	502,390	460,640	41,750
Interest	--	112,100	112,100	--
Total Expenditures	<u>121,890,246</u>	<u>136,177,051</u>	<u>123,132,658</u>	<u>13,044,393</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(174,258)</u>	<u>(6,247,003)</u>	<u>5,618,330</u>	<u>11,865,333</u>
Other Financing Sources (Uses):				
Operating Transfers Out	--	--	(714,993)	(714,993)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(714,993)</u>	<u>(714,993)</u>
Net Change in Fund Balance	(174,258)	(6,247,003)	4,903,337	11,150,340
Fund Balance, July 1	<u>14,144,272</u>	<u>14,144,272</u>	<u>14,144,272</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 13,970,014</u>	<u>\$ 7,897,269</u>	<u>\$ 19,047,609</u>	<u>\$ 11,150,340</u>

CAJON VALLEY UNION SCHOOL DISTRICT

EXHIBIT B-2

CAFETERIA FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Federal Revenue</i>	\$ 3,281,820	\$ 3,327,328	\$ 3,295,445	\$ (31,883)
<i>Other State Revenue</i>	4,529,582	452,952	466,144	13,192
<i>Other Local Revenue</i>	1,805,000	1,805,000	1,823,690	18,690
Total Revenues	<u>9,616,402</u>	<u>5,585,280</u>	<u>5,585,279</u>	<u>(1)</u>
Expenditures:				
<i>Pupil Services</i>	5,220,602	5,326,941	5,333,657	(6,716)
<i>General Administration</i>	125,000	101,366	101,366	--
<i>Plant Services</i>	73,500	73,500	66,777	6,723
Total Expenditures	<u>5,419,102</u>	<u>5,501,807</u>	<u>5,501,800</u>	<u>7</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,197,300</u>	<u>83,473</u>	<u>83,479</u>	<u>6</u>
Net Change in Fund Balance	4,197,300	83,473	83,479	6
Fund Balance, July1	<u>95,779</u>	<u>95,779</u>	<u>95,779</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 4,293,079</u>	<u>\$ 179,252</u>	<u>\$ 179,258</u>	<u>\$ 6</u>

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
<i>Cash in County Treasury</i>	\$ 1,738,977	\$ 2,125,230	\$ 2,863,878	\$ 6,728,085
<i>Accounts Receivable</i>	10,436	--	17,472	27,908
<i>Due from Other Funds</i>	1,230	--	--	1,230
Total Assets	<u>\$ 1,750,643</u>	<u>\$ 2,125,230</u>	<u>\$ 2,881,350</u>	<u>\$ 6,757,223</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
<i>Accounts Payable</i>	\$ 71,876	\$ --	\$ 76,519	\$ 148,395
<i>Due to Other Funds</i>	106,529	--	22,703	129,232
<i>Deferred Revenue</i>	167,826	--	--	167,826
Total liabilities	<u>346,231</u>	<u>--</u>	<u>99,222</u>	<u>445,453</u>
Fund Balance:				
Unreserved, reported in nonmajor:				
<i>Special Revenue Funds</i>	1,404,412	--	--	1,404,412
<i>Debt Service Funds</i>	--	2,125,230	--	2,125,230
<i>Capital Projects Funds</i>	--	--	2,782,128	2,782,128
Total Fund Balance	<u>1,404,412</u>	<u>2,125,230</u>	<u>2,782,128</u>	<u>6,311,770</u>
Total Liabilities and Fund Balances	<u>\$ 1,750,643</u>	<u>\$ 2,125,230</u>	<u>\$ 2,881,350</u>	<u>\$ 6,757,223</u>

CAJON VALLEY UNION SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
<i>Federal Revenue</i>	\$ 3,851	\$ --	\$ --	\$ 3,851
<i>Other State Revenue</i>	2,247,079	45,512	585,158	2,877,749
<i>Other Local Revenue</i>	24,104	2,959,828	1,661,489	4,645,421
Total Revenues	<u>2,275,034</u>	<u>3,005,340</u>	<u>2,246,647</u>	<u>7,527,021</u>
Expenditures:				
<i>Instruction</i>	1,354,343	--	--	1,354,343
<i>Instruction - Related Services</i>	97,649	--	--	97,649
<i>General Administration</i>	109,851	--	140,254	250,105
<i>Plant Services</i>	857,182	--	1,969,856	2,827,038
Debt Service:				
<i>Principal</i>	--	705,000	--	705,000
<i>Interest</i>	--	2,122,510	--	2,122,510
Total Expenditures	<u>2,419,025</u>	<u>2,827,510</u>	<u>2,110,110</u>	<u>7,356,645</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(143,991)</u>	<u>177,830</u>	<u>136,537</u>	<u>170,376</u>
Other Financing Sources (Uses):				
<i>Operating Transfers In</i>	639,993	--	--	639,993
<i>Operating Transfers Out</i>	--	--	(54)	(54)
Total Other Financing Sources (Uses)	<u>639,993</u>	<u>--</u>	<u>(54)</u>	<u>639,939</u>
Net Change in Fund Balance	496,002	177,830	136,483	810,315
Fund Balance, July 1	908,410	1,947,400	2,645,645	5,501,455
Fund Balance, June 30	<u>\$ 1,404,412</u>	<u>\$ 2,125,230</u>	<u>\$ 2,782,128</u>	<u>\$ 6,311,770</u>

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2005

	Child Development Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:			
<i>Cash in County Treasury</i>	\$ 343,896	\$ 1,395,081	\$ 1,738,977
<i>Accounts Receivable</i>	1,082	9,354	10,436
<i>Due from Other Funds</i>	1,230	--	1,230
Total Assets	<u>\$ 346,208</u>	<u>\$ 1,404,435</u>	<u>\$ 1,750,643</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
<i>Accounts Payable</i>	\$ 71,853	\$ 23	\$ 71,876
<i>Due to Other Funds</i>	106,529	--	106,529
<i>Deferred Revenue</i>	167,826	--	167,826
Total liabilities	<u>346,208</u>	<u>23</u>	<u>346,231</u>
Fund Balance:			
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	--	1,404,412	1,404,412
Total Fund Balance	<u>--</u>	<u>1,404,412</u>	<u>1,404,412</u>
Total Liabilities and Fund Balances	<u>\$ 346,208</u>	<u>\$ 1,404,435</u>	<u>\$ 1,750,643</u>

CAJON VALLEY UNION SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Child Development Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:			
<i>Federal Revenue</i>	\$ 3,851	\$ --	\$ 3,851
<i>Other State Revenue</i>	1,552,095	694,984	2,247,079
<i>Other Local Revenue</i>	5,896	18,208	24,104
Total Revenues	<u>1,561,842</u>	<u>713,192</u>	<u>2,275,034</u>
Expenditures:			
<i>Instruction</i>	1,354,343	--	1,354,343
<i>Instruction - Related Services</i>	97,649	--	97,649
<i>General Administration</i>	109,851	--	109,851
<i>Plant Services</i>	--	857,182	857,182
Total Expenditures	<u>1,561,843</u>	<u>857,182</u>	<u>2,419,025</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1)</u>	<u>(143,990)</u>	<u>(143,991)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers In</i>	--	639,993	639,993
Total Other Financing Sources (Uses)	<u>--</u>	<u>639,993</u>	<u>639,993</u>
Net Change in Fund Balance	(1)	496,003	496,002
Fund Balance, July 1	1	908,409	908,410
Fund Balance, June 30	<u>\$ --</u>	<u>\$ 1,404,412</u>	<u>\$ 1,404,412</u>

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2005

	Capital Facilities Fund	State School Building Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:			
<i>Cash in County Treasury</i>	\$ 2,802,000	\$ 61,878	\$ 2,863,878
<i>Accounts Receivable</i>	16,386	1,086	17,472
Total Assets	<u>\$ 2,818,386</u>	<u>\$ 62,964</u>	<u>\$ 2,881,350</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
<i>Accounts Payable</i>	\$ 66,650	\$ 9,869	\$ 76,519
<i>Due to Other Funds</i>	5,057	17,646	22,703
Total liabilities	<u>71,707</u>	<u>27,515</u>	<u>99,222</u>
Fund Balance:			
Unreserved, reported in nonmajor:			
<i>Capital Projects Funds</i>	2,746,679	35,449	2,782,128
Total Fund Balance	<u>2,746,679</u>	<u>35,449</u>	<u>2,782,128</u>
Total Liabilities and Fund Balances	<u>\$ 2,818,386</u>	<u>\$ 62,964</u>	<u>\$ 2,881,350</u>

CAJON VALLEY UNION SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Capital Facilities Fund	State School Building Fund	Capital Outlay Projects	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:				
<i>Other State Revenue</i>	\$ --	\$ 585,158	\$ --	\$ 585,158
<i>Other Local Revenue</i>	1,671,847	(10,358)	--	1,661,489
Total Revenues	<u>1,671,847</u>	<u>574,800</u>	<u>--</u>	<u>2,246,647</u>
Expenditures:				
<i>General Administration</i>	140,254	--	--	140,254
<i>Plant Services</i>	1,212,066	757,790	--	1,969,856
Total Expenditures	<u>1,352,320</u>	<u>757,790</u>	<u>--</u>	<u>2,110,110</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>319,527</u>	<u>(182,990)</u>	<u>--</u>	<u>136,537</u>
Other Financing Sources (Uses):				
<i>Operating Transfers Out</i>	(46)	--	(8)	(54)
Total Other Financing Sources (Uses)	<u>(46)</u>	<u>--</u>	<u>(8)</u>	<u>(54)</u>
Net Change in Fund Balance	319,481	(182,990)	(8)	136,483
Fund Balance, July 1	2,427,198	218,439	8	2,645,645
Fund Balance, June 30	<u>\$ 2,746,679</u>	<u>\$ 35,449</u>	<u>\$ --</u>	<u>\$ 2,782,128</u>

Other Supplementary Information

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

Supplementary Information Section

CAJON VALLEY UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

YEAR ENDED JUNE 30, 2005

TABLE D-1

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	1,579.98	1,571.73
Grades 1 through 3	4,989.70	4,984.15
Grades 4 through 6	5,453.56	5,441.06
Grades 7 and 8	3,630.79	3,619.80
Community day schools	32.55	36.82
Home and Hospital	4.11	6.01
Special education	875.87	870.90
Elementary totals	<u>16,566.56</u>	<u>16,530.47</u>
ADA totals	<u>16,566.56</u>	<u>16,530.47</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	217,131	

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

CAJON VALLEY UNION SCHOOL DISTRICT*SCHEDULE OF INSTRUCTIONAL TIME**YEAR ENDED JUNE 30, 2005*

TABLE D-2

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2004-05 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	36,000	180	--	Complied
Grades 1 through 3	42,380	50,400	51,750	180	--	Complied
Grades 4 through 8	52,560	54,000	54,360	180	--	Complied

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2005

TABLE D-3

General Fund	(Budget) 2006	2005	2004	2003
Revenues and other financial sources	\$ 122,768,136	\$ 128,750,987	\$ 123,940,252	\$ 125,602,100
Expenditures, other uses and transfers out	124,184,440	123,847,650	123,929,392	125,215,710
Change in fund balance (deficit)	(1,416,304)	4,903,337	10,860	386,390
Ending fund balance	<u>\$ 17,631,305</u>	<u>\$ 19,047,609</u>	<u>\$ 14,144,272</u>	<u>\$ 14,133,412</u>
Available reserves	<u>\$ 17,387,778</u>	<u>\$ 18,804,083</u>	<u>\$ 13,934,665</u>	<u>\$ 13,904,790</u>
Available reserves as a percentage of total outgo	<u>14.0%</u>	<u>15.2%</u>	<u>11.2%</u>	<u>11.1%</u>
Total long-term debt	<u>\$ 53,935,018</u>	<u>\$ 57,996,693</u>	<u>\$ 59,620,887</u>	<u>\$ 50,247,541</u>
Average daily attendance at P-2	<u>16,111</u>	<u>16,567</u>	<u>17,241</u>	<u>17,852</u>

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

The district's general fund balance has increased by \$5,300,591 over the past three years. The fiscal year 2005-06 budget projects a decrease of \$1,416,304. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Total long-term debt has increased by \$23,370,682 over the past three years.

Average daily attendance (ADA) has decreased by 1,576 over the past three years.

CAJON VALLEY UNION SCHOOL DISTRICT

*RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005*

TABLE D-4

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2005

TABLE D-5

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

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

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

TABLE D-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
U. S. Wildlife *	15.611	-	\$ 17,731
Total U. S. Department of the Interior			<u>17,731</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Medi-Cal *	93.778	-	118,042
Passed Through California Department of Education:			
Child Care and Development *	93.575	-	3,851
Total U. S. Department of Health and Human Services			<u>121,893</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Program:			
Impact Aid - P.L. 81.874	84.041	-	3,083
Passed Through California Department of Education:			
Title I	84.010	03064	7,537,879
School Assistance and Intervention	84.010	03013	117,600
Title I-Local Improvement	84.011	03035	1,699
Special Education *	84.027	03379	2,679,614
Preschool *	84.173	03430	488,322
Title IV Drug Free	84.186	03453	112,610
21st Century Learning	84.287	04124	4,200
Title V Innovative	84.298	04110	115,329
Title II Technology	84.318	04046	434,200
Title II EETT	84.318	04046	446,533
Reading First	84.357	03030	463,108
Title III Immigrant	84.365	04201	28,464
Title III LEP	84.365	04203	253,804
Title II Teacher Quality	84.367	04035	838,769
Title VI ELDT	84.369	04363	20,158
Total Passed Through California Department of Education			<u>13,542,289</u>
Total U. S. Department of Education			<u>13,545,372</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	03988	425,113
National School Lunch Program *	10.555	03396	2,870,332
Total Passed Through State Department of Education			<u>3,295,445</u>
Total U. S. Department of Agriculture			<u>3,295,445</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>16,980,441</u>

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

The accompanying notes are an integral part of this schedule.

CAJON VALLEY UNION SCHOOL DISTRICT

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cajon Valley Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, Cajon Valley Union School District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title II Teacher Quality	84.367	\$ 12,942
Title II Technology	84.318	6,877
Title V Innovative	84.298	8,621
Total Provided to Subrecipients		<u>\$ 28,440</u>

Other Independent Auditor's Reports

WILKINSON HADLEY & CO. LLP
CPAs and Advisors
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707

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

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

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cajon Valley Union School District as of and for the year ended June 30, 2005, which collectively comprise the Cajon Valley Union School District's basic financial statements and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cajon Valley Union School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2005

WILKINSON HADLEY & CO. LLP
CPAs and Advisors
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707

Report on Compliance with Requirements Applicable
To each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

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

Members of the Board of Trustees:

Compliance

We have audited the compliance of Cajon Valley Union School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Cajon Valley Union School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cajon Valley Union School District's management. Our responsibility is to express an opinion on Cajon Valley Union School District's compliance based on our audit.

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

In our opinion, Cajon Valley Union School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2005

WILKINSON HADLEY & CO. LLP
CPAs and Advisors
 250 E. Douglas Ave., Suite 200
 El Cajon, CA 92020
 Tel (619) 447-6700 Fax (619) 447-6707

Auditor's Report on State Compliance

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

Members of the Board of Trustees:

We have audited the basic financial statements of the Cajon Valley Union School District ("District") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time and Staff Development Reform Program	7	Yes
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	No
Class Size Reduction Program:		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Yes
Only One School Serving Grades K-3	4	Not Applicable

Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes

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

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

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

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2005

Findings and Recommendations Section

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005

Finding 2005-2 (40000)
 K-3 Class Size Reduction

Criteria or Specific Requirement

Determine the average class size for the specified classes that were certified as eligible for the Class Size Reduction Program were properly calculated and that the number of students reported as eligible students is correct based on state requirements.

Condition

In our review of the supporting documentation for Form J-7CSR we noted a clerical error that caused the district to overstate the number of students eligible for class size reduction funding by one student. The error noted resulted in the following changes:

<u>Class</u>	<u>Eligible Students Originally Reported</u>	<u>Eligible Students As Corrected</u>	<u>Over (Under) Reported</u>
1st Grade	1455	1454	1

Questioned Costs

Overstatement of one student-reduction in funding of \$928.

Recommendation

We recommend the district file a corrected Form J-7CSR and report the correct number of students in each class.

LEA's Response

The error was reviewed and corrected by the District staff and an amended report has been filed with the state.

CAJON VALLEY UNION SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2004-1 Attendance Accounting</p> <p>A significant number of class rosters were not being signed by the teachers as verification of attendance at Hillsdale Middle School.</p> <p>Implement procedures to ensure all class rosters are signed by the teachers as verification of attendance.</p>	<p>Implemented</p>	