



ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

DEHESA SCHOOL DISTRICT
COUNTY OF SAN DIEGO
EL CAJON, CALIFORNIA
AUDIT REPORT
JUNE 30, 2005

DEHESA SCHOOL DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2005

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DEHESA SCHOOL DISTRICT

FINANCIAL SECTION

JUNE 30, 2005

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dehesa School District
El Cajon, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dehesa 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 the Dehesa School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Dehesa 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.

The Management's Discussion and Analysis on pages 4 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2005 on our consideration of the Dehesa School District's internal control over financial reporting and our tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of this audit.

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

Hasaka, Nagel & Company

San Diego, California
October 24, 2005

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

This section of Dehesa School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net assets increased 8.2% over the course of the year to \$3,027,599.
- Overall revenues were \$3,122,462, \$230,715 more than expenses.
- The total expenses were \$2,891,747.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financials statements present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financials statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the statements and provides more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

Below summarizes the major features of the District's financial statements, including a portion of the District's activities they cover and the types of information they contain.

Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Fund Statements	
		Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as student activities monies (ASB)
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

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

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

The District has two kinds of funds:

- *Governmental funds* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets as of June 30, 2005 were \$3,027,599 (See Table A-1).

**Table A-1
Condensed Statement of Net Assets**

	<u>2004/2005</u>	<u>2003/2004</u>
Current and other assets	1,980,601	1,561,376
Capital assets	1,093,185	1,540,642
Total Assets	<u>3,073,786</u>	<u>3,102,018</u>
Long-term debt outstanding	25,250	22,219
Other liabilities	251,652	52,200
Total Liabilities	<u>276,902</u>	<u>74,419</u>
Net assets:		
Invested in capital assets,		
Net of related debt	1,083,375	1,537,068
Restricted	593,297	389,303
Unrestricted	1,120,212	1,101,228
Total Net Assets	<u>2,796,884</u>	<u>3,027,599</u>

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

Changes in net assets. The District's total revenues were \$3,122,462 (See Table A-2). The total cost of all programs and services was \$2,891,747. Total revenues surpassed expenses by \$230,725.

**Table A-2
Condensed Statement of Activities
(In dollars)**

	2004/2005	2003/2004
Revenues		
Program revenues		
Charges for services	\$ 42,012	\$ 38,391
Federal & state categorical programs	632,778	1,524,780
Capital grants and contributions	419,674	9
General revenues		
Property taxes	573,096	657,869
State formula aid	1,144,693	1,113,250
Other revenues	310,209	138,429
Total Revenues	3,122,462	3,472,728
Expenses		
Instructional services	1,028,887	1,121,559
Student support services	215,019	216,627
Maintenance & operations	664,449	798,615
Administration	141,379	139,569
Other expenses	842,013	862,082
Total Expenses	2,891,747	3,138,452
Increase (Decrease) in Net Assets	230,715	334,276

Governmental Activities

The Statement of Activities categorizes the activities presented in Table A-2 by revenue source:

- The cost of all governmental activities this year was \$2,891,747.
- Some of the revenue was from users of the District's programs in the amount of \$42,012.
- The federal and state governments subsidized programs with grants and contributions in the amount of \$632,778.
- Most of the District's income in the amount of \$1,717,789 came from District taxpayers and the taxpayers of California.
- Local and miscellaneous revenues account for \$310,209.
- Net assets increased by \$230,715.

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance amount of \$1,509,176.

General Fund Budgetary Highlights

Over the course of the year, the Board approves five versions of the operating budget. These budget revisions fall into the categories of Preliminary, Adopted, First Interim, Second Interim, and Final Adopted.

Major budget amendments in revenue for the year include changes in Revenue Limit; federal grants such as IDEA Special Ed, Title I, Safe and Drug Free Schools; state amounts such as Special Ed Master Plan, ETA, Class Size Reduction, Lottery, and Instructional Materials.

The District's final budget for the general fund show anticipated revenues to be approximately \$215,438 under expenditures, whereas the actual results for the year show a \$30,477 under expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004, the District had invested \$2,632,426 in a broad range of capital assets, including: land improvements, building construction, work in progress, and equipment. (See Table A-3). Total depreciation expense for the year was \$87,472. Additions to capital assets amounted to \$534,929.

**Table A-3
Capital Assets**

	2004/2005	2003/2004
Land	\$ 3,000	\$ 3,000
Improvement of sites	38,094	9,900
Buildings	1,787,393	1,737,652
Work in process	456,994	-
Equipment	346,945	346,945
Total at historical cost	2,632,426	2,097,497

**DEHESA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At year-end, the District had \$22,219 in Capital Leases and Compensated Absences.

**Table A-4
Long-Term Debt**

	<u>2004/2005</u>	<u>2003/2004</u>
Compensated absences	\$ 15,527	\$ 15,440
Capital leases	6,692	9,810
Total at historical cost	<u>\$ 22,219</u>	<u>\$ 25,250</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the only known circumstance that could significantly affect its financial health in the future would be the State's continuing economic decline and its impact on the State budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Crystal Heringer, Business Manager, Dehesa School District, 4612 Dehesa Road, El Cajon, California 92019.

**DEHESA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,297,699
Receivables	263,677
Capital Assets:	
Land	3,000
Improvements of Sites	38,094
Buildings	1,787,393
Work in Process	456,994
Equipment	346,945
Less: Accumulated Depreciation	<u>(1,091,784)</u>
TOTAL ASSETS	<u><u>3,102,018</u></u>
 LIABILITIES	
Accounts Payable	51,652
Deferred Revenue	548
Long-Term Liabilities:	
Due Within One Year	6,692
Due After One Year	<u>15,527</u>
TOTAL LIABILITIES	<u><u>74,419</u></u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,537,068
Restricted For:	
Capital Projects	338,546
Education Programs	50,757
Unrestricted	<u>1,101,228</u>
TOTAL NET ASSETS	<u><u>\$ 3,027,599</u></u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2005**

Functions/ Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses), Revenues, and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction	\$ 1,028,887	\$ -	\$ 173,792	\$ 419,674	\$ (435,421)
Instruction-Related Services					
Instructional Library, Media, and Technology	3,858	-	-	-	(3,858)
School Site Administration	169,514	-	421	-	(169,093)
Pupil Services					
Home-to-School Transportation	126,210	-	72,281	-	(53,929)
Food Services	71,813	42,012	23,624	-	(6,177)
All Other Pupil Services	41,647	-	-	-	(41,647)
General Administration	141,379	-	29,321	-	(112,058)
Plant Services	466,426	-	1,285	-	(465,141)
Unallocated Depreciation	87,472	-	-	-	(87,472)
Other Outgo	754,541	-	332,054	-	(422,487)
Total School District	<u>\$ 2,891,747</u>	<u>\$ 42,012</u>	<u>\$ 632,778</u>	<u>\$ 419,674</u>	<u>\$ (1,797,283)</u>
General Revenues					
Taxes and Subventions					573,096
Taxes Levied for General Purposes					1,144,693
Federal and State Aid Not Restricted to Specific Purposes					26,598
Interest and Investment Earnings					283,611
Miscellaneous					
Total General Revenues					<u>2,027,998</u>
Changes in Net Assets					230,715
Net Assets - Beginning					<u>2,796,884</u>
Net Assets - Ending					<u>\$ 3,027,599</u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

ASSETS	General	Cafeteria	Deferred Maintenance	Special Reserve Other than Capital Outlay	Capital Facilities	State School Building Lease-Purchase	Other Governmental Funds	Total Governmental Funds
Cash in County Treasury	\$ 313,522	\$ 20,215	\$ 308,926	\$ 241,966	\$ 271,622	\$ 67,116	\$ 72,776	\$ 1,296,143
Cash on Hand and in Banks	-	200	-	-	-	-	356	556
Cash in Revolving Cash Fund	1,000	-	-	-	-	-	-	1,000
Accounts Receivable	252,340	5,079	2,102	1,217	1,635	588	716	263,677
Due From Other Funds	17,889	-	-	41,665	-	-	-	59,554
TOTAL ASSETS	584,751	25,494	311,028	284,848	273,257	67,704	73,848	1,620,930
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	37,958	-	10,884	-	2,415	-	395	51,652
Due to Other Funds	41,665	14,115	-	3,720	-	-	54	59,554
Deferred Revenue	548	-	-	-	-	-	-	548
Total Liabilities	80,171	14,115	10,884	3,720	2,415	-	449	111,754
Fund Balances								
Reserved for:								
Revolving Fund	1,000	-	-	-	-	-	-	1,000
Unreserved								
Designated for:								
Economic Uncertainties	234,100	-	-	-	-	-	-	234,100
Other Designations	173,624	-	-	-	-	-	-	173,624
Undesignated								
Reported in:								
General Fund	95,856	-	-	-	-	-	-	95,856
Capital Projects Funds	-	-	-	-	270,842	67,704	-	338,546
Special Revenue Funds	-	11,379	300,144	281,128	-	-	73,399	666,050
Total Fund Balances	504,580	11,379	300,144	281,128	270,842	67,704	73,399	1,509,176
TOTAL LIABILITIES AND FUND BALANCES	\$ 584,751	\$ 25,494	\$ 311,028	\$ 284,848	\$ 273,257	\$ 67,704	\$ 73,848	\$ 1,620,930

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total Fund Balances - Governmental Funds	\$1,509,176
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Amounts reported for governmental activities are not short-term financial resources and therefore are not reported as assets in governmental funds. The historical acquisition cost of the assets is \$2,632,426 and the accumulated depreciation is \$1,091,784.

1,540,642

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Capital Leases	\$ 6,692	
Compensated Absences (Vacation)	<u>15,527</u>	<u>(22,219)</u>

Total Net Assets - Governmental Activities	<u><u>\$3,027,599</u></u>
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The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

REVENUES	General	Cafeteria	Deferred Maintenance	Special Reserve Other than Capital Outlay	Capital Facilities	State School Building Lease-Purchase	Other Governmental Funds	Total Governmental Funds
Revenue Limit Sources								
State Apportionment	\$ 828,777	-	-	-	-	-	-	\$ 828,777
Local Sources	573,607	-	-	-	-	-	-	573,607
Total Revenue Limit	1,402,384	-	-	-	-	-	-	1,402,384
Federal Revenue	285,232	21,940	-	-	-	-	-	307,172
Other State Revenue	317,075	1,348	9,764	-	-	416,673	-	744,860
Local Revenues								
Other Local Revenue	495,133	42,519	38,924	3,937	99,819	3,001	66,156	749,489
TOTAL REVENUES	2,499,824	65,807	48,688	3,937	99,819	419,674	66,156	3,203,905

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

EXPENDITURES	General	Cafeteria	Deferred Maintenance	Special Reserve Other than Capital Outlay	Capital Facilities	State School Building Lease-Purchase	Other Governmental Funds	Total Governmental Funds
Instruction	1,028,887	-	-	-	-	-	-	1,028,887
Instruction - Related Services	173,372	-	-	-	-	-	-	173,372
Pupil Services	130,440	65,984	-	-	-	-	43,245	239,669
General Administration	141,059	-	-	-	320	-	-	141,379
Plant Services	197,988	-	340,217	-	195,091	352,534	-	1,085,830
Other Outgo	754,541	-	-	-	-	-	-	754,541
Total Expenditures	2,426,287	65,984	340,217	-	195,411	352,534	43,245	3,423,678
Excess Revenues Over (Under) Expenditures	73,537	(177)	(291,529)	3,937	(95,592)	67,140	22,911	(219,773)
Other Financing Sources (Uses)	3,720	-	9,764	97,970	-	-	-	111,454
Operating Transfers In	(107,734)	-	-	(3,720)	-	-	-	(111,454)
Operating Transfers (Out)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(104,014)	-	9,764	94,250	-	-	-	-
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(30,477)	(177)	(281,765)	98,187	(95,592)	67,140	22,911	(219,773)
Fund Balances - Beginning	535,057	11,556	581,909	182,941	366,434	564	50,488	1,728,949
Fund Balances - Ending	\$ 504,580	\$ 11,379	\$ 300,144	\$ 281,128	\$ 270,842	\$ 67,704	\$ 73,399	\$ 1,509,176

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005**

Total Net Change in Fund Balances - Governmental Funds \$ (219,773)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which additions to Capital Outlay \$534,929 exceeds depreciation expense (\$87,472) in the period. 447,457

In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$87. (87)

Repayments of long-term debt are recorded as expenditure in the governmental funds. In the government-wide statements, they are recorded as reductions of liabilities. Expenditures for payments on Capital leases were: 3,118

Total Change in Net Assets - Governmental Activities \$ 230,715

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2005**

	<u>Student Body</u>
ASSETS	
Cash in Banks	<u>\$ 20,890</u>
Total Assets	<u>20,890</u>
LIABILITIES	
Due to Student Groups	<u>20,890</u>
Total Liabilities	<u>20,890</u>
NET ASSETS	
Unrestricted	<u>-</u>
TOTAL NET ASSETS	<u><u>\$ 20,890</u></u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of the Dehesa School District (the District). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies
- B. Implementation of New Accounting Pronouncements
- C. Basis of Presentation
- D. Basis of Accounting
- E. Fund Accounting
- F. Budgets and Budgetary Accounting
- G. Encumbrances
- H. Assets, Liabilities, and Equity

NOTE 2 - CASH AND INVESTMENTS

NOTE 3 - ACCOUNTS RECEIVABLE

NOTE 4 - INTERFUND TRANSACTIONS

NOTE 5 - CAPITAL ASSETS

NOTE 6 - LEASES

NOTE 7 - COMPENSATED ABSENCES

NOTE 8 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

NOTE 9 - DEFERRED REVENUE

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

**NOTE 10 - JOINT POWERS AGREEMENT AND SAN DIEGO COUNTY
SCHOOLS FRINGE BENEFITS CONSORTIUM**

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

NOTE 13 - PENDING LITIGATION

NOTE 14 - POST- EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Implementation of New Accounting Pronouncements

For the year ended June 30, 2004, the District was required to adopt GASB Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37 (GASB 37), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38 (GASB 38), Certain Financial Statement Note Disclosures, and GASB Statement No. 39 (GASB 39), Determining Whether Certain Organizations are Component Units. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management's Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District and its component units. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

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

Deferred Revenue:

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

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

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

E. Fund Accounting

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

Major Governmental Funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

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

The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.

The State School Building Lease-Purchase Fund is used primarily to account for state facility apportionments provided for school modernization projects.

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

The Special Reserve for Other Than Capital Outlay Fund is used to account for resources reserved for economic uncertainties.

Nonmajor Governmental Funds:

Capital Projects Funds are used to account for the acquisition and construction of all major governmental general fixed assets. The District maintains one nonmajor capital project fund:

- The Special Reserve For Capital Outlay Fund is used to account for funds segregated for capital expenditures.

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

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains one agency fund.

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

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

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

2. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities, and Equity (Continued)

<u>Asset Class</u>	<u>Examples</u>	<u>Estimated Useful Life In Years</u>
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical/Plumbing		30
Sprinkler/Fire System	Fire suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and Tools	Shop and maintenance equipment, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, other	15
Science and Engineering	Lab equipment, scientific apparatus	10
Furniture and Accessories	Classroom and other furniture	20
Business Machines	Fax, duplicating and printing equipment	10
Copiers		5
Communication Equipment	Mobile, portable radios, non-computerized	10
Computer Hardware	PC's, printers, network hardware	5
Computer Software	Instructional, other short-term	5 to 10
Computer Software	Administrative or long-term	10 to 20
Audio Visual Equipment	Projectors, cameras (still and digital)	10
Athletic Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, strings, brass, percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on-road vehicles	8
Contractors Equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities, and Equity (Continued)

3. Deferred Revenue

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

4. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

6. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflects 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.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Fund Balance Reserves and Designations (Continued)

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

7. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

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

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

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Revenue Limit/Property Tax (Continued)

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

NOTE 2 - CASH AND INVESTMENTS

Cash including Agency Funds at June 30, 2005 consisted of the following:

Pooled Funds:	
Cash in County Treasury	\$ 1,296,143
Deposits:	
Cash on Hand and in Banks	\$ 21,446
Cash in Revolving Fund	\$ 1,000

Cash balances held in banks and/or credit unions and in revolving funds are insured up to \$100,000 by federal agencies.

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. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

These pooled funds are carried at cost which approximates market value. The difference between cost and market value is considered to be immaterial.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

At June 30, 2005, the fair market value of the pooled funds, as determined by the County Treasury, is 99.25% of cost. The District's share of the unrealized loss is as follows:

Carrying Amount	Fair Market Value	Unrealized (Loss)
\$ 1,296,143	\$ 1,286,421	\$ (9,722)

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable balances at June 30, 2005 consist of the following:

	General Fund	Special Revenue Funds	Capital Projects Funds	Other Funds	TOTAL
Federal:					
Federal Programs	\$ 56,587	\$ -	\$ -	\$ 3,931	\$ 60,518
State Government:					
Revenue Limit	57,573	-	-	-	57,573
Categorical Aid Programs	14,534	-	-	231	14,765
Lottery	14,832	-	-	-	14,832
Local:					
Other	104,462	-	-	1,102	105,564
Interest	4,352	2,102	1,635	2,336	10,425
TOTAL	\$ 252,340	\$ 2,102	\$ 1,635	\$ 7,600	\$ 263,677

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 17,889	\$ 41,665
Child Development	-	54
Cafeteria	-	14,115
Special Reserve	41,665	3,720
TOTAL	<u>\$ 59,554</u>	<u>\$ 59,554</u>

Interfund Transfers

Interfund Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for 2004-2005 are as follows:

<u>Fund</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Special Reserve Fund	\$ 3,720
Deferred Maintenance	General Fund	9,764
Special Reserve - Other Than Capital Projects	General Fund	97,970
TOTAL		<u>\$ 111,454</u>

DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is shown below:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Work in Progress	<u>-</u>	<u>456,994</u>	<u>-</u>	<u>456,994</u>
Total Capital Assets, Not Being Depreciated	<u>3,000</u>	<u>456,994</u>	<u>-</u>	<u>459,994</u>
Capital Assets, Being Depreciated:				
Improvement of Sites	9,900	28,194	-	38,094
Buildings	1,737,652	49,741	-	1,787,393
Equipment	<u>346,945</u>	<u>-</u>	<u>-</u>	<u>346,945</u>
Total Capital Assets, Being Depreciated	<u>2,094,497</u>	<u>77,935</u>	<u>-</u>	<u>2,172,432</u>
Less Accumulated Depreciation for:				
Improvement of Sites	9,900	-	-	9,900
Buildings	730,200	25,451	-	755,651
Equipment	<u>264,212</u>	<u>62,021</u>	<u>-</u>	<u>326,233</u>
Total Accumulated Depreciation	<u>1,004,312</u>	<u>87,472</u>	<u>-</u>	<u>1,091,784</u>
Total Capital Assets, Being Depreciated, Net	<u>1,090,185</u>	<u>(9,537)</u>	<u>-</u>	<u>1,080,648</u>
Governmental Activities Capital Assets, Net	<u><u>\$1,093,185</u></u>	<u><u>\$ 447,457</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,540,642</u></u>

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 6 - LEASES

A. Capital Leases

The District has entered into a lease purchase arrangement for a 2003 school bus during the year ended June 30, 2003. The purchase price of the school bus was \$109,113, of which a grant in the amount of \$92,740 from the State of California was applied toward the purchase price. The remaining balance of \$16,373 is being financed over a period of five (5) years. Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payments
2006	\$ 3,589
2007	3,589
2008	-
2009	-
2010	-
TOTAL	7,178
Less: Amount Representing Interest	(486)
Present Value of Net Minimum Lease Payments	\$ 6,692

B. Operating Leases

The District has entered into an annual lease arrangement for two (2) Xerox copiers.

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 7 - COMPENSATED ABSENCES

At June 30, 2005, the liability related to accrued vacation benefits was \$15,527. This amount was calculated by multiplying the accumulated hours of accrued vacation benefits per employee times the hourly rate per employee. The current year change in this liability was not recorded in the General Fund as a current liability since it is not believed to be material. The entire liability for accrued vacation benefits is recorded in the General Long-Term Debt account group. The District's policy is to record expenditures in the period vacations are taken.

NOTE 8 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in Long-Term Debt at June 30, 2005 is as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Accrued Vacation (Note 7)	\$ 15,440	\$ 87	\$ -	\$ 15,527	\$ 15,527
Capital Leases (Note 6)	9,810	-	3,118	6,692	3,589
TOTAL	<u>\$ 25,250</u>	<u>\$ 87</u>	<u>\$ 3,118</u>	<u>\$ 22,219</u>	<u>\$ 19,116</u>

NOTE 9 - DEFERRED REVENUE

At June 30, 2005, the District had \$548 of Deferred Revenue.

**NOTE 10 - JOINT POWERS AGREEMENT AND SAN DIEGO COUNTY SCHOOLS
FRINGE BENEFITS CONSORTIUM**

The District entered into a joint powers agreement (JPA) known as and designated "San Diego County Schools Risk Management Joint Powers Authority", a self-insurance plan for workers' compensation, liability, property damage, fire damage, or any other risk or plan authorized by law. The County Superintendent of Schools of San Diego County, California is the administrator of the JPA. The County Superintendent has created a special fund under his control to facilitate the financial transactions.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

**NOTE 10 - JOINT POWERS AGREEMENT AND SAN DIEGO COUNTY SCHOOLS
FRINGE BENEFITS CONSORTIUM (CONTINUED)**

Previously programs which provide medical, dental, and vision services to District employees were covered under the same agreement. These programs are now covered under separate agreements and are reported on separately as the San Diego County Schools Fringe Benefits Consortium (the Consortium).

The JPA and the Consortium are separate entities which are independently audited. Because the District has a minority voting interest and no administrative authority, the financial transactions of the JPA and the Consortium are not included in this report.

NOTE 11 - 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 California Public Employees' Retirement System (CalPERS).

Plan Description and Funding Policy

STRS

Plan Description

The District contributes to the State Teachers' Retirement Systems (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 STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Plan Description and Funding Policy (Continued)

STRS

Funding Policy

Active plan members are required to contribute 8.00% 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 2004-2005 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$66,953, \$57,817, and \$49,666, respectively, and equals 100% of the required contribution for each year.

CalPERS

Plan Description

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

**DEHESA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Plan Description and Funding Policy (Continued)

CalPERS

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.116% of annual payroll based on PERS reduction transfers. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$35,703, \$28,808, and \$34,175, respectively, and equals 100% of the required contribution for each year.

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no instances of excess expenditures over appropriations in any fund.

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District had no post-employment benefits.

NOTE 14 - PENDING LITIGATION

The District did not have any pending litigation for the year ended June 30, 2005.

DEHESA SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2005

**DEHESA SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive - (Negative)</u>
REVENUES				
Revenue Limit Sources				
State Apportionment	\$ 777,454	\$ 817,452	\$ 828,777	\$ 11,325
Local Sources	674,483	570,001	573,607	3,606
Total Revenue Limit	<u>1,451,937</u>	<u>1,387,453</u>	<u>1,402,384</u>	<u>14,931</u>
Federal Revenue	238,174	271,413	285,232	13,819
Other State Revenue	256,228	299,090	317,075	17,985
Local Revenues				
Other Local Revenue	<u>373,586</u>	<u>437,487</u>	<u>495,133</u>	<u>57,646</u>
Total Revenues	<u>2,319,925</u>	<u>2,395,443</u>	<u>2,499,824</u>	<u>104,381</u>
EXPENDITURES				
Certificated Salaries	737,597	772,776	755,634	17,142
Classified Salaries	378,509	423,473	423,472	1
Employee Benefits	249,285	271,664	248,471	23,193
Books and Supplies	113,403	121,502	84,980	36,522
Services and Other Operating Expenditures	124,728	159,190	159,189	1
Other Outgo	<u>771,663</u>	<u>760,157</u>	<u>754,541</u>	<u>5,616</u>
Total Expenditures	<u>2,375,185</u>	<u>2,508,762</u>	<u>2,426,287</u>	<u>82,475</u>
Excess Revenues Over (Under) Expenditures	<u>(55,260)</u>	<u>(113,319)</u>	<u>73,537</u>	<u>186,856</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	3,720	3,720
Operating Transfers (Out)	<u>(9,764)</u>	<u>(102,119)</u>	<u>(107,734)</u>	<u>(5,615)</u>
Total Other Financing Sources (Uses)	<u>(9,764)</u>	<u>(102,119)</u>	<u>(104,014)</u>	<u>(1,895)</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(65,024)</u>	<u>(215,438)</u>	<u>(30,477)</u>	<u>184,961</u>
Fund Balances - Beginning	<u>535,057</u>	<u>535,057</u>	<u>535,057</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 470,033</u>	<u>\$ 319,619</u>	<u>\$ 504,580</u>	<u>\$ 184,961</u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
CAFETERIA FUND
YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
REVENUES				
Federal Revenue	\$ 18,500	\$ 18,500	\$ 21,940	\$ 3,440
Other State Revenue	1,200	1,200	1,348	148
Local Revenues				
Other Local Revenue	35,200	35,200	42,519	7,319
Total Revenues	<u>54,900</u>	<u>54,900</u>	<u>65,807</u>	<u>10,907</u>
EXPENDITURES				
Classified Salaries	15,000	15,000	11,529	3,471
Employee Benefits	1,500	2,320	2,320	-
Books and Supplies	38,200	52,136	52,135	1
Services and Other Operating Expenditures	150	150	-	150
Total Expenditures	<u>54,850</u>	<u>69,606</u>	<u>65,984</u>	<u>3,622</u>
Excess Revenues Over (Under) Expenditures	<u>50</u>	<u>(14,706)</u>	<u>(177)</u>	<u>14,529</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>50</u>	<u>(14,706)</u>	<u>(177)</u>	<u>14,529</u>
Fund Balances - Beginning	<u>11,556</u>	<u>11,556</u>	<u>11,556</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 11,606</u>	<u>\$ (3,150)</u>	<u>\$ 11,379</u>	<u>\$ 14,529</u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
DEFERRED MAINTENANCE
YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive - (Negative)</u>
REVENUES				
Other State Revenue	\$ 4,000	\$ 7,766	\$ 9,764	\$ 1,998
Local Revenues				
Other Local Revenue	<u>3,400</u>	<u>22,454</u>	<u>38,924</u>	<u>16,470</u>
Total Revenues	<u>7,400</u>	<u>30,220</u>	<u>48,688</u>	<u>18,468</u>
EXPENDITURES				
Books and Supplies	-	675	675	-
Services and Other Operating Expenditures	-	4,000	(5,961)	9,961
Capital Outlay	<u>25,000</u>	<u>398,000</u>	<u>345,503</u>	<u>52,497</u>
Total Expenditures	<u>25,000</u>	<u>402,675</u>	<u>340,217</u>	<u>62,458</u>
Excess Revenues Over (Under) Expenditures	<u>(17,600)</u>	<u>(372,455)</u>	<u>(291,529)</u>	<u>80,926</u>
Other Financing Sources (Uses)				
Operating Transfers In	9,764	9,764	9,764	-
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>9,764</u>	<u>9,764</u>	<u>9,764</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(7,836)</u>	<u>(362,691)</u>	<u>(281,765)</u>	<u>80,926</u>
Fund Balances - Beginning	<u>-</u>	<u>581,909</u>	<u>581,909</u>	<u>-</u>
Fund Balances - Ending	<u>\$ (7,836)</u>	<u>\$ 219,218</u>	<u>\$ 300,144</u>	<u>\$ 80,926</u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
SPECIAL RESERVE FOR OTHER THAN CAPITAL OUTLAY
YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive - (Negative)</u>
REVENUES				
Local Revenues				
Other Local Revenue	\$ 300	\$ 1,000	\$ 3,937	\$ 2,937
Total Revenues	<u>300</u>	<u>1,000</u>	<u>3,937</u>	<u>2,937</u>
EXPENDITURES				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Expenditures	<u>300</u>	<u>1,000</u>	<u>3,937</u>	<u>2,937</u>
Other Financing Sources (Uses)				
Operating Transfers In	63,775	63,775	97,970	34,195
Operating Transfers (Out)	<u>-</u>	<u>(3,720)</u>	<u>(3,720)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>63,775</u>	<u>60,055</u>	<u>94,250</u>	<u>34,195</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>64,075</u>	<u>61,055</u>	<u>98,187</u>	<u>37,132</u>
Fund Balances - Beginning	<u>182,941</u>	<u>182,941</u>	<u>182,941</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 247,016</u>	<u>\$ 243,996</u>	<u>\$ 281,128</u>	<u>\$ 37,132</u>

The notes to the basic financial statements are an integral part of this statement.

DEHESA SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2005

**DEHESA SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR FUNDS
JUNE 30, 2005**

ASSETS	<u>Child Development</u>	<u>Special Reserve for Capital Outlay</u>	<u>Totals</u>
Cash in County Treasury	\$ 66,645	\$ 6,131	\$ 72,776
Cash on Hand and in Banks	356	-	356
Accounts Receivable	<u>676</u>	<u>40</u>	<u>716</u>
TOTAL ASSETS	<u><u>67,677</u></u>	<u><u>6,171</u></u>	<u><u>73,848</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	395	-	395
Due to Other Funds	<u>54</u>	<u>-</u>	<u>54</u>
Total Liabilities	<u><u>449</u></u>	<u><u>-</u></u>	<u><u>449</u></u>
Fund Balances			
Undesignated Fund Balances	<u>67,228</u>	<u>6,171</u>	<u>73,399</u>
Total Fund Balances	<u><u>67,228</u></u>	<u><u>6,171</u></u>	<u><u>73,399</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 67,677</u></u>	<u><u>\$ 6,171</u></u>	<u><u>\$ 73,848</u></u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NONMAJOR FUNDS (BY FUNCTION)
 YEAR ENDED JUNE 30, 2005**

REVENUES	<u>Child Development</u>	<u>Special Reserve for Capital Outlay</u>	<u>Totals</u>
Local Sources			
Other Local Revenue	<u>\$ 66,020</u>	<u>\$ 136</u>	<u>\$ 66,156</u>
Total Revenues	<u>66,020</u>	<u>136</u>	<u>66,156</u>
 EXPENDITURES			
Pupil Services	<u>43,245</u>	<u>-</u>	<u>43,245</u>
Total Expenditures	<u>43,245</u>	<u>-</u>	<u>43,245</u>
Excess Revenues Over (Under) Expenditures	<u>22,775</u>	<u>136</u>	<u>22,911</u>
Other Financing Sources (Uses)			
Operating Transfers In	<u>-</u>	<u>-</u>	<u>-</u>
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>22,775</u>	<u>136</u>	<u>22,911</u>
Fund Balances - Beginning	<u>44,453</u>	<u>6,035</u>	<u>50,488</u>
Fund Balances - Ending	<u><u>\$ 67,228</u></u>	<u><u>\$ 6,171</u></u>	<u><u>\$ 73,399</u></u>

The notes to the basic financial statements are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
ORGANIZATION
JUNE 30, 2005**

The Dehesa School District (the District) was established in 1876 and is comprised of approximately 19 square miles, located in San Diego County. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school, and sponsors one charter school.

The Board of Trustees for the fiscal year ended June 30, 2005 was composed of the following members:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff F. Royal, Sr.	President	November, 2008
Cynthia White	Vice President	November, 2006
Janice D. Green	Clerk	November, 2008
Charles T. Huskey	Member	November, 2006
Denise C. Hujing	Member	November, 2006

District Superintendent/Principal

Barbara P. Rohrer

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	32.37	35.62
Grades 1 through 3	76.40	76.92
Grades 4 through 6	<u>83.24</u>	<u>83.14</u>
TOTAL	<u><u>192.01</u></u>	<u><u>195.68</u></u>

	<u>Hours of Attendance</u>
SUMMER SCHOOL	2,109

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Grade Level</u>	<u>1986-87 Minutes Requirements</u>	<u>1982-83 Actual Minutes</u>	<u>2004-2005 Actual Minutes</u>	<u>Number of Days Traditional Calendar*</u>	<u>Status</u>
Kindergarten	36,000	34,905	38,010	181	In Compliance
Grades 1 through 3	50,400	47,505	56,880	181	In Compliance
Grades 4 through 8	54,000	55,245	56,880	181	In Compliance
Grades 9 through 12	N/A	N/A	N/A	N/A	N/A

* Multitrack Calendar is not applicable.

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>General Fund</u>	<u>(Budget) 2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues and Other Financial Sources	\$ 2,326,088	\$ 2,503,544	\$ 2,420,732	\$ 2,406,408
Expenditures	2,357,413	2,426,287	2,359,684	2,176,433
Other Uses and Transfers Out	9,764	107,734	99,989	70,105
Total Outgo	2,367,177	2,534,021	2,459,673	2,246,538
Change in Fund Balance	(41,089)	(30,477)	(38,941)	159,870
Ending Fund Balance	\$ 463,491	\$ 504,580	\$ 535,057	\$ 573,998
Available Reserves	\$ 391,684	\$ 329,955	\$ 508,161	\$ 572,998
Available Reserves as a Percentage of Total Outgo	16.54%	13.02%	20.70%	25.51%
Total Long-Term Debt	\$ 18,630	\$ 22,219	\$ 25,250	\$ 25,981
Average Daily Attendance at P-2	192	192	197	196

The General Fund balance has increased by \$90,452 (21.84%) over the past three years. The fiscal year 2005-2006 budget projects a decrease of \$41,089 (-8.14%). For a District this size, the State recommends available reserves of at least \$50,000 or 5 percent of total General Fund expenditures, transfers out, and other uses.

The Long-Term Debt has decreased by \$216 in the last three years.

Average daily attendance has increased by 22 ADA over the past three years. The District anticipates no change in ADA for the year 2005-2006.

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ PASS-THROUGH	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Programs:			
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
Title II EN HNC	84.318	14334	\$ 126
Title III - LEP	84.365A	14346	514
Indian Education	84.060A	10011	7,207
Title VI REAP	84.358A	14356	18,735
Maintenance and Operations	84.041	N/A	122,450
IASA Title I	84.010	13797	15,154
Drug Free School	84.186	13453	642
IDEA Personnel Development	84.027	13613	207
NCLB Title II	84.367	13340	8,360
Title V/VI Part A	84.298A	N/A	2,258
Local Assistance	84.027	13379	<u>105,107</u>
Total U.S. Department of Education			<u>280,760</u>
U.S. Department of Agriculture:			
Passed through CDE:			
National School Breakfast	10.553	13157	3,108
National School Lunch	10.555	13755	18,832
Wildlife Reserve	10.665	10044	<u>4,472</u>
Total U.S. Department of Agriculture			<u>26,412</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 307,172</u>

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
RECONCILIATION OF ANNUAL UNAUDITED ACTUAL FINANCIAL
REPORT (FORM CA) WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

There were no adjustments or reclassifications made to the June 30, 2005 Annual Financial and Budget Report's (Form CA) fund balances, to arrive at the June 30, 2005 fund balances of the audited financial statements.

See the accompanying notes to supplementary information.

**DEHESA SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2005**

NOTE 1 - PURPOSE OF TABLES

A. Schedule of Average Daily Attendance

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.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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.

D. Reconciliation of Unaudited Actual Financial Report with Audited 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 Unaudited Actual Financial Report (Form CA) with Audited Financial Statements.

E. Schedule of Financial Trends and Analysis

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

The District does not offer an early retirement incentive program as of June 30, 2005.

**DEHESA SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Charter School</u>	<u>Included/Not Included</u>
Dehesa Charter School, Inc.	Not Included

DEHESA SCHOOL DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2005

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

Board of Trustees
Dehesa School District
El Cajon, California

We have audited the financial statements of the Dehesa School District (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 24, 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.

Compliance

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

Internal Control Over Financial Reporting

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Page 2

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

Hasaka, Nagel & Company

San Diego, California
October 24, 2005

ROY T. HOSAKA, C.P.A.
 JAMES C. NAGEL, C.P.A.

MEMBER
 CALIFORNIA SOCIETY OF
 CERTIFIED PUBLIC ACCOUNTANTS
 AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Dehesa School District
 El Cajon, California

We have audited the general-purpose financial statements of the Dehesa School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 24, 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 Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The 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 Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Center/Programs	6	Not Applicable
Instructional Time and Staff Development Reform Program	7	Yes

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
Page 2

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time for:		
School District	4	Yes
County Offices of Education	3	Not Applicable
GANN Limit Calculation	1	Yes
Early Retirement Incentive Program	4	Yes
Community Day Schools	9	Not Applicable
Class Size Reduction Program:		
General	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter School with Only One School Serving K-3	4	Not Applicable
State Instructional Materials General Requirements	12	Yes
K-8 Only	1	Yes
9-12 Only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
School Construction Funds:		
School District Bonds	3	Not Applicable
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not Applicable
Proposition 20 Lottery Funds (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 because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the Dehesa School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Dehesa School District had not complied with the state laws and regulations.

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

Hasaka, Nagel & Company

San Diego, California
 October 24, 2005

DEHESA SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2005

**DEHESA SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes N/A No
 Reporting condition(s) identified not considered
 to be material weaknesses? Yes N/A None reported

Type of auditors' report issued on compliance for
 major programs: N/A

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

Identification of major programs:

CFDA Number

Name of Federal Program

This Organization did not have any major programs.

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

Auditee qualified as low-risk auditee? X Yes No

**DEHESA SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

Section II -- Financial Statement Findings

No matters were reported.

Section III -- Federal Award Findings and Questioned Costs

No matters were reported.

**DEHESA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
Finding 2004-I - AM/PM Cash Receipts (30000)		
<p>The District uses a billing system for the AM/PM program that includes sending out invoices. When paid by the parent, the cash is turned in at office or the AM/PM center. There is no clear audit trail to trace the invoiced amount, cash collected and deposited to the bank.</p>		
Recommendation		
<p>A system should be devised to track cash receipts against the invoiced amounts and then to the bank deposits. There should also be adequate documentation to show the amounts transferred each month from the local bank to the county treasury account.</p>	Implemented	