FULLERTON
SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2012

FULLERTON SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2012
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NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Fullerton School District
Fullerton, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fullerton 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 and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of June 30, 2012 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 December 5, 2012 on our consideration of Fullerton 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 considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and budgetary comparison information and schedule of funding progress on pages 51 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fullerton School District's financial statements as a whole. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Nigro & Nigro, PC

December 5, 2012

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Fullerton School District is a large suburban school district offering instruction to students from kindergarten through eighth grade, including programs for preschool and special education. During the 2011-12 school year, the District operated fifteen elementary schools, two K-8 schools, and three junior high schools, on the traditional September through June schedule, for the instruction of approximately 13,665 students.

MISSION STATEMENT

The mission of the Fullerton School District is to work collaboratively with the community to provide an innovative, high-quality educational program for all students in a safe learning environment. Our motto, *"Great Schools - Successful Kids"* exemplifies the belief that all students will achieve academic excellence, acquire interpersonal skills, and develop technological expertise to contribute as productive citizens in a democratic society.

<u>Focusing on Excellence</u>

Student Learning
- Develop and implement rigorous and innovative instructional programs within a safe and positive learning environment to help shape character, develop intellect, promote 21st Century learning skills, encourage collaboration, foster creativity, and provide for the joys of artistic expression.

Curriculum and Assessment
- Provide a standards-based academic program that focuses on utilizing research-based instructional strategies with effective and timely feedback that allows staff and parents to work together to make instructional decisions that promote success for all students.

Budget and Resources
- Maximize all existing funds and resources to enhance learning opportunities for all students while maintaining fiscal solvency and seeking new sources for revenue enhancement.

Staffing
- Actively recruit, retain and value highly qualified, well-trained staff members.

Parents and Community
- Promote service, partnerships and increased involvement among the District, schools, parents and the community of Fullerton to actively support our schools.

Staff Development
- Encourage and support growth by implementing research-based professional development to guide work and align training opportunities to District goals, site goals and student needs.

MISSION STATEMENT (continued)

Technology
- Empower all students and staff to effectively integrate state-of-the-art technology in all facets of the instructional and operational programs of the District.

Leadership
- Sustain a professional cutting edge leadership team that works together to promote collaboration and foster a positive learning and working environment for all students and staff.

Facilities
- Maintain and improve facilities to provide a safe, attractive, positive learning and working environment for all students and staff.

FINANCIAL HIGHLIGHTS

Districtwide Financial Statements
- As of June 30, 2012, the District's overall financial condition was essentially unchanged from June 30, 2011, as net assets remained at $80 million. While revenues also remained relatively unchanged, expenses increased. Therefore, the excess of revenues over expenditures that the District experienced in fiscal 2011 was reduced to no net excess for fiscal 2012, resulting in no change to net assets.
- Overall revenues remained relatively flat, at 115.5 million. This reflects continued unchanged funding levels from the Federal and State governments.
- At the same time, overall expenditures increased $4.1 million, to $115.4 million – an increase of 3.7%. This increase reflects normal, ongoing increases in contractual salaries and benefits, as well as inflationary increases for supplies, utilities, and other services. Also, in 2010-11, the District benefitted from a temporary reduction in payroll costs due to eight unpaid furlough days taken by employees. In 2011-12, six of these furlough days were restored, increasing overall payroll costs to the District.
- Since revenue change did not keep up with increases in expenses, the District's overall change in net assets decreased from a $3.3 million surplus in 2010-11 to $113,000 in 2011-12.
- Total District-wide expenses were $115.4 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was $87.6 million.
- The District continued to decrease its outstanding long-term debt, showing a $1.6 million reduction for the current year (2.5%). This decrease was primarily due to principal payments made.

General Fund Financial Statements
- The District's General Fund recorded a net increase to the ending Fund Balance for the year. Actual results were better than the original and revised operating budgets for the year. This positive variance came about primarily because of underspending across all programs.
- Revenues of $103.1 million ($78.2 million Unrestricted, $24.9 million Restricted) were received.
- Expenditures of $100.9 million ($68.6 million Unrestricted, $32.3 million Restricted) were made.
- Net interfund transfers in of $2.0 million were received.
- The net result of operations was an increase to the ending fund balance of $4.2 million. This net increase incurred entirely in the Unrestricted Fund; there was no change to net assets in the Restricted Fund.

FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)
This provided the District with a General Fund ending balance of $22.5 million. This was comprised of:

Reserved Amounts	$	1,330,556
Legally Restricted Balances		2,197,514
Board Designated		2,518,561
Designated for Economic Uncertainties		16,457,299
TOTAL	$	22,503,930

Revenue Limit and Average Daily Attendance (A.D.A.)

Virtually all of the District's funding is based upon the number of students in attendance at District schools. The largest revenue line item for the District is the Revenue Limit, also known as State apportionment. Revenue Limit is calculated based upon Average Daily Attendance (A.D.A.). A.D.A. is calculated based upon the actual number of days a student attends school, divided by the total possible instructional days (180 days for a full school year). Thus, a student who attends class every day of the school year, with no absences, earns one A.D.A.

The District earns a set amount of Revenue Limit per A.D.A. which is determined by the State budget. Total Revenue Limit is calculated by multiplying the District's Second Period ("P-2") A.D.A. by the base revenue limit. If a district is in a declining enrollment situation, Revenue Limit is calculated on the prior year P-2 ADA. The District receives its share of local property taxes, and the State provides Apportionment Revenue to make up the total Revenue Limit.

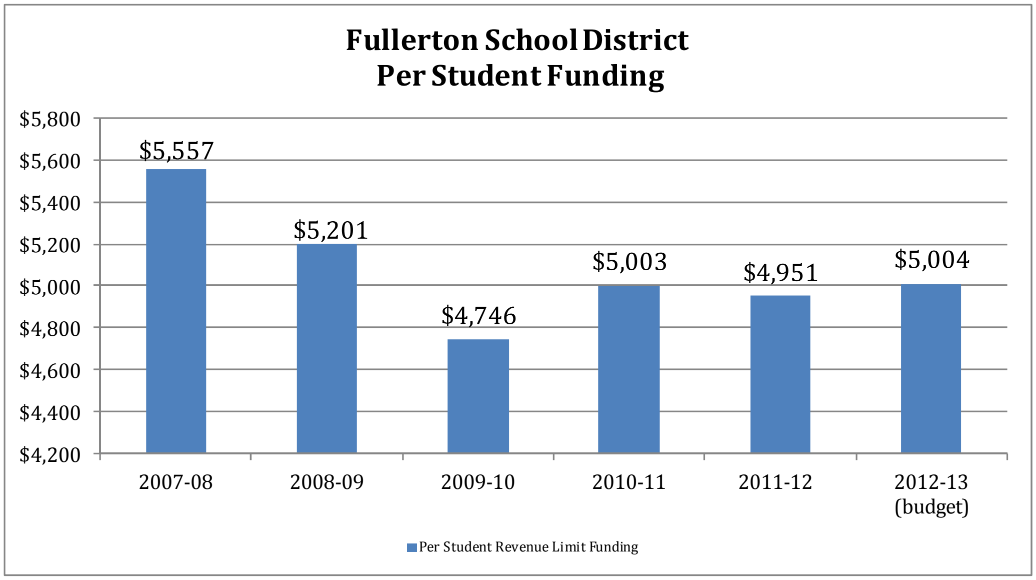
The District's per student base revenue limit (net of any State applied deficit) for the past five years, and the estimated revenue limit for the current year, is as follows:

2007-08	$5,557
2008-09	$5,201
2009-10	$4,746
2010-11	$5,003
2011-12	$4,951
2012-13*	$5,004

* Current budgeted amount

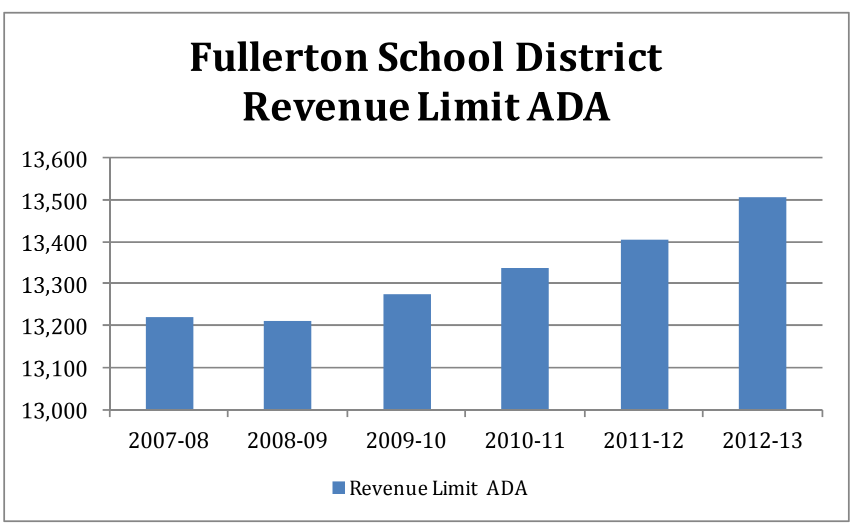
FINANCIAL HIGHLIGHTS (continued)

Revenue Limit and Average Daily Attendance (A.D.A.) (continued)



P-2 apportionment-earning ADA used in the calculation of the Revenue Limit for the past five years, and the estimated Revenue Limit ADA for the current year, is as follows:

2007-08	13,220
2008-09	13,209
2009-10	13,276
2010-11	13,338
2011-12	13,405
2012-13(est.)	13,505

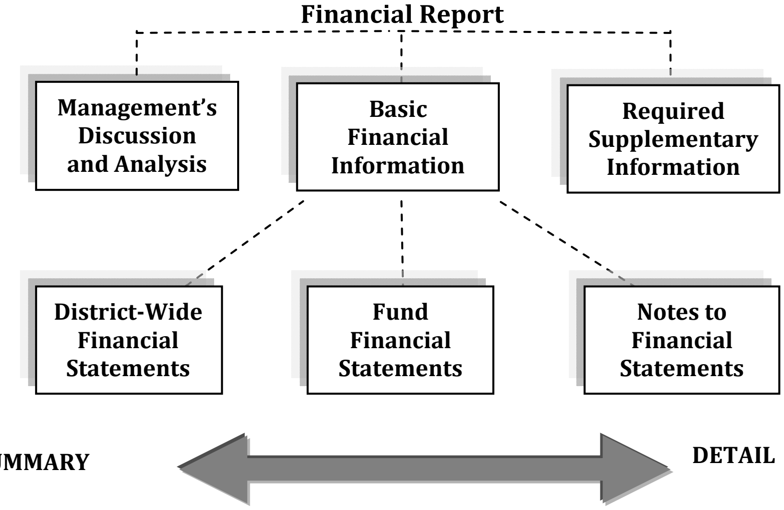


OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Figure A-1. Organization of Fullerton School District's Annual Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the district that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Assets • Statement of Revenues, Expenses, & Changes in Net Assets • Statement of Cash Flows	• Statement of Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	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	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, 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 financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps 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 on a separate reconciliation page that explains the relationship (or differences) between them.

Fund Financial Statements (continued)

- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers' compensation claims and property and liability losses.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, 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. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were higher on June 30, 2012, than they were the year before – increasing 0.1% to $80.2 million. (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase
	2012	**2011***	**(Decrease)**
Current assets	$ 49,266,597	$ 57,783,536	$ (8,516,939)
Non-current assets	2,165,243	1,675,847	489,396
Capital assets	97,760,532	101,854,454	(4,093,922)
Total assets	149,192,372	161,313,837	(12,121,465)
Current liabilities	9,209,021	19,861,023	(10,652,002)
Long-term liabilities	59,756,696	61,339,319	(1,582,623)
Total liabilities	68,965,717	81,200,342	(12,234,625)
Net assets			
Invested in capital assets, net of related debt	49,062,281	52,108,704	(3,046,423)
Restricted	9,901,035	8,516,759	1,384,276
Unrestricted	21,263,339	19,488,032	1,775,307
Total net assets	$ 80,226,655	$ 80,113,495	$ 113,160

**As restated*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues remained relatively unchanged at $115 million. This reflects continued unchanged funding levels from the Federal and State governments.

The total cost of all programs and services increased 3.7% to $115.5 million. The District's expenses are predominantly related to educating and caring for students, 82.3%. The purely administrative activities of the District accounted for just 3.9% of total costs. Increased costs were due to normal, ongoing increases in contractual salaries and benefits, as well as inflationary increases for supplies, utilities, and other services. Also, in 2010-11, the District benefitted from a temporary reduction in payroll costs due to eight unpaid furlough days taken by employees. In 2011-12, six of these furlough days were restored, increasing overall payroll costs to the District.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	2012	2011	
Total Revenues	$ 115,489,801	$ 114,634,619	$ 855,182
Total Expenses	115,376,641	111,269,808	4,106,833
Increase (decrease) in net assets	$ 113,160	$ 3,364,811	$ (3,251,651)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Governmental Funds financial statements report the financial activities of the District net of the effect of long-term items such as capital assets, long-term debt, and other multi-year commitments. Rather, the Governmental Funds statements generally present only financial transactions related to current assets and liabilities. These statements focus on cash received and spent in one year, and what assets are available at year end that can be spent on expenses and liabilities that will be paid within one fiscal year.

At June 30, 2012, the District reported a combined fund balance of $39.0 million for all of its governmental funds, which represents an increase of $2.2 million to last year's restated ending fund balance of $36.8 million. This increase was caused primarily by a net decrease in cash and accounts receivable, offset by a larger decrease to total liabilities. The decrease in liabilities was due to the fact that at June 30, 2011, the District had both a TRAN and a material deferred revenue related to the Federal Jobs grant; these liabilities had been liquidated as of June 30, 2012.

General Fund Budgetary Highlights

The District's primary operating fund, and the fund where the majority of its financial transactions take place, is the General Fund.

The overall financial health of the District is generally determined by the state of its General Fund. This fund reflects the effects on the District's finances caused by increased funding or cuts imposed by the State on public education funding. It is also the fund where the District Board and administration have the most flexibility to adjust expenditures to match changes in State and Federal funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights (continued)

The District first published an estimated General Fund budget for the 2011-12 fiscal year in June, 2009, as part of the three year projection included with its 2009-10 budget. Since that time, the projection has been revised many times to reflect changes in projected funding levels, as well as anticipated District expenditures.

The 2011-12 "Final" budget was officially approved by the Board of Trustees on June 28, 2011. Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by $4.4 million primarily to reflect increases in federal, state, and local revenue estimates. Federal and State revenue adjustments reflect differences between estimated and actual carryovers for June 30, 2011 (more revenue was carried over than expected so budgets increased for 2011-12.) Increases in other local revenues reflect donations received during the year (The District does not budget revenues and expenditures related to donations until the actual donation is received.)
- Other books and supplies expenses – increased $3.9 million to reflect additional categorical spending and expenditures related to donations received.

While the District's final revised budget for the General Fund anticipated revenues would fall short of expenditures by about $1.3 million, the actual results for the year show that revenues exceeded expenditures by roughly $4.1 million. This positive variance was primarily caused by overbudgeting of expenses/under budgeting of revenues in the Special Education program, as well as underspending across all programs and object codes, especially those related to restricted categorical programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested $0.6 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was $4.7 million.

Table A-3: Capital Assets at Year-End, net of depreciation

	Governmental Activities		Variance Increase
	2012	2011*	(Decrease)
Land	$ 9,198,655	$ 9,198,655	$ -
Improvement of sites	2,871,949	3,056,072	(184,123)
Buildings and improvements	84,405,053	88,611,602	(4,206,549)
Machinery and equipment	1,284,875	988,125	296,750
Total	$ 97,760,532	$ 101,854,454	$ (4,093,922)

**As restated*

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had $59.8 million in general obligation bonds, certificates of participation, RDA loans, capital leases and employment benefits – a net decrease of 2.6% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2012	2011*	
General obligation bonds	$ 45,432,844	$ 47,429,117	$ (1,996,273)
Certificates of participation	6,770,000	6,670,000	100,000
RDA Loans	408,982	440,442	(31,460)
Capital leases	723,552	835,384	(111,832)
Early retirement incentives	1,330,870	1,774,493	(443,623)
Compensated absences	1,225,949	1,280,573	(54,624)
Other postemployment benefits	3,864,499	2,909,310	955,189
Total	$ 59,756,696	$ 61,339,319	$ (1,582,623)

**As restated*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the *2012-13 Budget Act* on June 27, 2012. Between that date and the end of August 2012, the Legislature also sent over 40 budget-related trailer bills to the Governor. The centerpiece of the budget is the assumption that voters will approve the Governor's tax initiative to temporarily increase the state SUT rate for all taxpayers and PIT rates for upper-income taxpayers. In March, the Governor introduced a revised tax initiative with lower SUT rates for all taxpayers and higher PIT rates on upper-income taxpayers, which subsequently qualified for the November ballot as Proposition 30.

K-12 Education

Spending Roughly Flat

Once the Governor's tax increase is implemented, per-pupil funding in 2012-13 will decrease slightly from $7,598 to $7,530, a drop of less than 1 percent from the prior year. This slight decrease is primarily due to the loss of federal "Education Jobs" funds that were available for school districts to spend in 2010-11 and 2011-12. This 2012-13 per-pupil spending level is about 9 percent less than the prerecession 2007-08 level.

Mandate Block Grant Adopted

The 2012-13 budget includes $167 million for a new discretionary block grant for K-12 mandates. School districts, charter schools, and county offices of education (COEs) may apply for mandate block grant funding. School districts and COEs that choose to participate in the block grant are to receive $28 per average daily attendance (ADA). In lieu of participating in the block grant, local educational agencies could continue to seek reimbursement for mandated activities through the existing mandates claiming process.

Final Shift of Student Mental Health Service Funding

The budget plan provides an additional $99 million to complete the shift in responsibility of student mental health services from county mental health agencies to school districts.

FACTORS BEARING ON THE DISTRICT'S FUTURE

K-12 Education

Various Changes to Increase Charter School Access to Facilities and Short-Term Cash
The budget package includes several changes to existing law that provide charter schools with additional access to facility space and short-term cash.

Governor Vetoes Funding for Certain K-12 Programs
In June, the Governor vetoed all funding for the Early Mental Health Initiative, for Proposition 98 savings of $15 million. In addition, the Governor vetoed $10 million in non-Proposition 98 funds that would have provided child nutrition funding for private schools and child care centers not eligible for the state's existing child nutrition program. The Governor also vetoed $8.1 million in one-time Proposition 98 funding for support of regional activities and statewide administration of the Advancement Via Individual Determination program.

Effect of the State Budget on Fullerton School District
The final State budget and the District budget assumed the passage of the tax initiative proposed by the Governor. As noted above, Proposition 30 was approved in the November general election, voiding potential trigger cuts to the District's revenue limit funding. Since the District assumed passage of the initiative, there were no adjustments necessary to the District's budget due to the passage of Proposition 30.

Although the District will not suffer the devastating cuts that would have occurred if Proposition 30 did not pass, it is still coping with prior cuts imposed by the State. As of the First Interim Budget Report, for the current year (2012-13) budget, the District is projecting a very slight net increase in the General Fund Unrestricted Fund Balance, followed by deficit spending in the two subsequent budget years. This is primarily due to projected increases in State funding not providing enough revenue to cover projected routine increases to salaries and benefits. At the same time, per student revenue limit funding is still at 90% of 2007-08 levels; Categorical funding is at 80%. The District has managed these reduced funding levels in prior years through a combination of employee concessions, cuts to programs and other expenditures, increased class sizes, and one-time Federal funding. For future years, the District plans to explore other budget adjustments in order to attain and maintain a balanced budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Susan Cross Hume, CPA, CIA, CGMA, Assistant Superintendent, Business Services at (714) 447-7412.

FULLERTON SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

ASSETS	Total Governmental Activities
Current assets:	
Cash	$ 23,346,942
Accounts receivable	24,626,291
Inventories	157,618
Prepaid expenditures	1,135,746
Total current assets	49,266,597
Non-current assets:	
Unamortized debt issuance costs	440,287
Deferred charges on refunding	1,724,956
Total non-current assets	2,165,243
Capital assets:	
Non-depreciable assets	9,198,655
Depreciable assets	158,863,265
Less accumulated depreciation	(70,301,388)
Total capital assets	97,760,532
Total assets	149,192,372
LIABILITIES	
Current liabilities:	
Accounts payable	9,016,940
Deferred revenues	192,081
Total current liabilities	9,209,021
Long-term liabilities:	
Due or payable within one year	3,051,600
Due or payable after one year	56,705,096
Total long-term liabilities	59,756,696
Total liabilities	68,965,717
NET ASSETS	
Invested in capital assets, net of related debt	49,062,281
Restricted for:	
Capital projects	3,911,874
Debt service	2,479,088
Categorical programs	3,510,073
Unrestricted	21,263,339
Total Net Assets	$ 80,226,655

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Instructional Services:				
Instruction	$ 72,542,023	$ 174,866	$ 17,418,825	$ (54,948,332)
Instruction-Related Services:				
Supervision of instruction	2,516,660	17,146	1,588,509	(911,005)
Instructional library, media and technology	2,057,612	43	137,434	(1,920,135)
School site administration	7,884,015	987	706,030	(7,176,998)
Pupil Support Services:				
Home-to-school transportation	2,006,573	97,787	1,025,624	(883,162)
Food services	4,452,629	-	3,460,063	(992,566)
All other pupil services	3,458,794	25,207	1,243,011	(2,190,576)
General Administration Services:				
Data processing services	17,479	-	-	(17,479)
Other general administration	4,500,948	154	434,534	(4,066,260)
Plant services	8,654,021	11	75,498	(8,578,512)
Transfers Between Agencies	697,531	-	-	(697,531)
Interest on long-term debt	1,894,613	-	-	(1,894,613)
Other outgo	-	39,560	1,328,227	1,367,787
Depreciation (unallocated)	4,693,743	-	-	(4,693,743)
Total Governmental Activities	$ 115,376,641	$ 355,761	$ 27,417,755	(87,603,125)

General Revenues:	
Property taxes	32,308,766
Federal and state aid not restricted to specific purpose	50,474,514
Interest and investment earnings	181,083
Miscellaneous	4,751,922
Total general revenues	87,716,285
Change in net assets	113,160
Net assets - July 1, 2011, as originally stated	73,262,109
Adjustment for restatement	6,851,386
Net assets - July 1, 2011, as restated	80,113,495
Net assets - June 30, 2012	$ 80,226,655

FULLERTON SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2012

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 9,620,392	$ 1,623,801	$ 8,905,904	$ 20,150,097
Accounts receivable	23,971,456	560,049	48,201	24,579,706
Due from other funds	244,482	-	144,082	388,564
Inventories	94,810	62,808	-	157,618
Prepaid expenditures	1,135,746	-	-	1,135,746
Total Assets	$ 35,066,886	$ 2,246,658	$ 9,098,187	$ 46,411,731
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 6,015,590	$ 639,191	$ 183,190	$ 6,837,971
Due to other funds	160,026	131,214	103,575	394,815
Deferred revenue	41,983	100,066	50,032	192,081
Total Liabilities	6,217,599	870,471	336,797	7,424,867
Fund Balances				
Nonspendable	1,330,556	63,628	-	1,394,184
Restricted	2,197,514	1,312,559	7,894,353	11,404,426
Assigned	8,863,919	-	867,037	9,730,956
Unassigned	16,457,298	-	-	16,457,298
Total Fund Balances	28,849,287	1,376,187	8,761,390	38,986,864
Total Liabilities and Fund Balances	$ 35,066,886	$ 2,246,658	$ 9,098,187	$ 46,411,731

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

Total fund balances - governmental funds			$ 38,986,864
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The net of capital assets and depreciation at year-end is:			
	Capital assets at historical cost	$ 168,061,920	
	Accumulated depreciation	(70,301,388)	
	Net:		97,760,532
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(749,591)
Deferred charges on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as an asset. The remaining deferred charges on refunding at the end of the period were:			1,724,956
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 on the statement of net assets are:			440,287
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements. Long-term liabilities at year-end consist of:			
	General obligation bonds payable	$ 45,432,844	
	Certificates of participation payable	6,770,000	
	Fullerton RDA loan payable	408,982	
	Capital leases	723,552	
	Early retirement incentive	1,330,870	
	Compensated absences payable	1,225,949	
	Other postemployment benefits payable	3,864,499	(59,756,696)
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:			1,820,303
Total net assets - governmental activities			$ 80,226,655

FULLERTON SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	$ 67,409,859	$ -	$ -	$ 67,409,859
Federal sources	9,268,024	3,363,829	-	12,631,853
Other state sources	17,288,389	244,858	1,203,935	18,737,182
Other local sources	9,140,039	1,287,605	6,283,262	16,710,906
Total Revenues	103,106,311	4,896,292	7,487,197	115,489,800
EXPENDITURES				
Instructional Services:				
Instruction	69,807,104	-	2,260,487	72,067,591
Instruction-Related Services:				
Supervision of instruction	2,495,469	-	-	2,495,469
Instructional library, media and technology	1,958,748	-	-	1,958,748
School site administration	7,430,883	-	366,276	7,797,159
Pupil Support Services:				
Home-to-school transportation	1,952,132	-	-	1,952,132
Food services	-	4,554,833	-	4,554,833
All other pupil services	3,446,485	-	4,822	3,451,307
General Administration Services:				
Other general administration	4,827,556	131,214	81,838	5,040,608
Plant services	8,133,747	51,348	31,767	8,216,862
Facility acquisition and construction	238,746	-	561,464	800,210
Other outgo:				
Transfers between agencies	697,531	-	-	697,531
Debt service - principal	165,000	-	2,735,162	2,900,162
Debt service - interest	131,649	-	1,625,444	1,757,093
Debt service - debt issuance costs	102,101	-	-	102,101
Total Expenditures	101,387,151	4,737,395	7,667,260	113,791,806
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,719,160	158,897	(180,063)	1,697,994
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	333,000	-	549,210	882,210
Interfund transfers out	(448,516)	-	(433,694)	(882,210)
Proceeds from refunding debt	6,935,000	-	-	6,935,000
Transfer to escrow agent for defeased debt	(6,832,899)	-	-	(6,832,899)
Proceeds from capital leases	-	-	371,870	371,870
Total Other Financing Sources and Uses	(13,415)	-	487,386	473,971
Net Change in Fund Balances	1,705,745	158,897	307,323	2,171,965
Fund Balances, July 1, 2011, as originally stated	27,143,542	1,217,290	9,948,632	38,309,464
Adjustments for restatement	-	-	(1,494,565)	(1,494,565)
Fund Balances, July 1, 2011, restated	27,143,542	1,217,290	8,454,067	36,814,899
Fund Balances, June 30, 2012	$ 28,849,287	$ 1,376,187	$ 8,761,390	$ 38,986,864

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended June 30, 2012

Total net change in fund balances - governmental funds			$ 2,171,965
Amounts reported for governmental *activities* in the statement of activities are different because:			
In governmental funds, the costs 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	599,821	
	Depreciation expense	(4,693,743)	
	Net:		(4,093,922)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			9,570,162
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred charges on the refunding and are amortized to interest expense over the life of the liability. The amortization of this during the year was:			49,109
In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:			(7,306,870)
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:			185,411
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, the issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:			73,505
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period:			(409,138)
In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was:			(955,189)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:			231,209
In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts paid exceeded amounts earned by:			498,247
The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.			98,671
Change in net assets of governmental activities			$ 113,160

		Governmental Activities Internal Service Fund
ASSETS		
Cash	$	3,196,845
Accounts receivable		46,585
Due from other funds		17,661
Total assets		3,261,091
LIABILITIES		
Accounts payable and accrued liabilities		69,654
Estimated liability for open claims and IBNR		1,359,724
Due to other funds		11,410
Total liabilities		1,440,788
NET ASSETS		
Restricted		1,820,303
Total net assets	$	1,820,303

FULLERTON SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 1,360,214
Other fees and contracts	80,000
Total operating revenues	1,440,214
OPERATING EXPENSES	
Classified salaries	66,745
Employee benefits	25,693
Books and supplies	68,953
Services and other operating expenditures	1,194,627
Total operating expenses	1,356,018
Operating Income (Loss)	84,196
NON-OPERATING REVENUES	
Interest income	14,475
Change in Net Assets	98,671
Net Assets, July 1, 2011	1,721,632
Net Assets, June 30, 2012	$ 1,820,303

FULLERTON SCHOOL DISTRICT

Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from self-insurance premiums	$ 1,366,583
Cash received from other sources	117,523
Cash paid for operating expenses	(1,380,313)
Net cash provided (used) by operating activities	103,793
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	13,024
Net cash provided (used) by investing activities	13,024
Net increase (decrease) in cash	116,817
Cash, July 1, 2011	3,080,028
Cash, June 30, 2012	$ 3,196,845
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ 84,196
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in operating assets:	
In accounts receivable	6,369
In due from other funds	37,523
Increase (decrease) in operating liabilities:	
In accounts payable and current liabilities	(6,399)
In due to other funds	1,299
In deferred revenues	(19,195)
Net cash provided (used) by operating activities	$ 103,793

FULLERTON SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2012

	Agency Funds	
	Associated Student Body Funds	Debt Service Fund for Blended Component Units
Assets		
Cash	$ 320,107	$ -
Investments	-	3,138,288
Accounts receivable	-	9
Total Assets	$ 320,107	$ 3,138,297
Liabilities		
Accounts payable	$ -	$ 15,582
Deferred revenue	-	1,589,380
Due to student groups	320,107	-
Due to bondholders	-	1,533,335
Total Liabilities	$ 320,107	$ 3,138,297

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Fullerton School 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. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although a legally separate entity, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

Fullerton School District Capital Facilities Corporation

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 1999. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated April 1, 1999.

Community Facilities Districts

On May 9, 2000 the District voted to establish Community Facilities District (CFD) No. 2000-1. On July 10, 2001 the District voted to establish CFD No. 2001-1. The purpose of the agreements is to provide for the issuance of bonds to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs to pay the principal and interest on the bonds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Financial Presentation
The Fullerton School District Facilities Corporation (the Corporation) financial activity is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Fullerton School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Assets* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

The following are those aspects of the relationship between the District and the component units which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units.*

Manifestations of Oversight
- The component units and the District have common boards.
- The component units have no employees. The District's Superintendent functions as an agent of the component units.
- The District exercises significant influence over operations of the component units as all projects of the component units involve the Fullerton School District.

Accountability of Fiscal Matters
- The District is responsible for preparation of the annual budgets for the component units.

Scope of Public Service
- The component units were created specifically to finance capital improvements for the Fullerton School District.

C. Basis of Presentation

Government-Wide Financial Statements
The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)
Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

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

Fund Financial Statements
Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented in the proprietary fund statements. Fiduciary funds are reported by fund type.

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flows needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund are charges to other funds for self-insurance costs. Operating expenses for the Internal Service Fund include the costs of claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essential equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

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

Deferred Revenue

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting, 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.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Governmental Fund Type Definitions
Governmental fund types include the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds.

General Fund: This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. The restricted or committed proceeds of specific revenue sources are expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specific purpose of the fund.

Capital Projects Funds: These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds: These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term debt.

Permanent Funds: These funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Major Governmental Funds
The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund, a Special Reserve Fund for Other Than Capital Outlay Projects, and a Special Reserve Fund for Postemployment Benefits. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Deferred Maintenance Fund does not currently meet the definition of special revenue funds as it is no longer primarily composed of restricted or committed revenue sources.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

General Fund (continued): In addition, the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits are not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Non-Major Governmental Funds
The District maintains the following non-major governmental funds:

Special Revenue Fund:

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

Capital Projects Funds:

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

Capital Projects Fund for Blended Component Units: This fund is used to account for proceeds received from the sale of special tax bonds levied for the purchase of land, expansion or rehabilitation of school facilities and related equipment.

Debt Service Fund:

Bond Interest and Redemption Fund: This Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Proprietary Funds
Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers' compensation program that is accounted for in a self-insurance service fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds
Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary fund:

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts that are considered blended component units of the District.

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund in the required supplementary information section.

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 as of June 30.

H. Assets, Liabilities, and Equity

1. Cash
The District's cash and cash consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories
Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $10,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

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

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

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 because such benefits do not vest, nor is payment probable.

6. Long-Term Obligations

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

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

7. Fund Balance Classifications

Fund balance reporting for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie these fund balance classifications and therefore would not report amounts in all possible fund balance classifications.

Nonspendable: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, revolving cash, inventories, and prepaid amounts.

Restricted: Fund balances should be reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned: Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Under the District’s policy, only the governing board, the superintendent, or the chief business official may assign amounts for a specific purpose.

Unassigned: Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. This classification also includes the Reserve for Economic Uncertainties (REU).

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Property Tax

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

J. Self-Insurance Internal Service Fund

The District is self-insured for property damage for $5,000 per claim and for general liability up to $50,000 per claim. The District is also self-insured for the first $1,000,000 per claim for Workers' Compensation. The General Fund is charged premiums by the Self-Insurance Fund, which is accounted for as an Internal Service Fund. The District also participates in a joint powers authority, which provides property and liability coverage for the District. On the government-wide financial statements, the Internal Service Fund activity is eliminated to avoid doubling of revenues and expenditures.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

L. New GASB Pronouncements

During the 2011-12 fiscal year, the following GASB Pronouncements became effective for the District:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*: The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in the multiple-employer other postemployment benefit (OPEB) plans. This Statement is not expected to affect the District.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - An Amendment of GASB Statement No. 53*: The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement is not expected to affect the District.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2012 are reported at fair value and consisted of the following:

		Governmental Activities			
	Rating	Governmental Funds	Proprietary Fund	Total	Fiduciary Funds
Pooled Funds:					
Cash in County Treasury		$ 18,426,296	$ 3,121,845	$ 21,548,141	$ -
Total Pooled Funds		18,426,296	3,121,845	21,548,141	-
Deposits:					
Cash on hand and in banks		1,622,981	-	1,622,981	320,107
Cash in revolving fund		100,820	75,000	175,820	-
Total Deposits		1,723,801	75,000	1,798,801	320,107
Total Cash		$ 20,150,097	$ 3,196,845	$ 23,346,942	$ 320,107
Investments:					
U.S. Bank - Money Market	N/A				$ 3,138,288

Pooled Funds

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

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2012, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account through December 31, 2012, and other cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)
The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2012, $1,373,143 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

Maturities of investments held at June 30, 2012 consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	$ 3,138,288	$ 3,138,288	$ -

Investments - Credit Risk
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2012, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had the following investment that represents more than five percent of the District's net investments.

U.S. Bank - Money Market	100%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 consisted of the following:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Governmental Funds Totals	Proprietary Fund
Federal Government:					
Categorical aid programs	$ 1,534,358	$ 514,134	$ -	$ 2,048,492	$ -
State Government:					
Revenue limit	16,770,883	-	-	16,770,883	-
Lottery	1,026,570	-	-	1,026,570	-
Categorical aid programs	2,228,815	45,759	29,030	2,303,604	-
Local:					-
Interest	17,698	-	3,327	21,025	3,421
Miscellaneous	2,393,132	156	15,844	2,409,132	43,164
Total	$ 23,971,456	$ 560,049	$ 48,201	$ 24,579,706	$ 46,585

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity is reported as 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 are 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.

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2012 were as follows:

	Due From Other Funds				
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Funds	Total
General Fund	$ -	$ 144,082	$ 144,082	$ 15,944	$ 160,026
Cafeteria Fund	131,214	-	131,214	-	131,214
Non-Major Governmental Funds	101,858	-	101,858	1,717	103,575
Proprietary Funds	11,410	-	11,410	-	11,410
Total	$ 244,482	$ 144,082	$ 388,564	$ 17,661	$ 406,225

General Fund due to Child Development Fund for expenditure reimbursement	$ 43,780
General Fund due to Self-Insurance Fund for workers compensation costs	15,944
General Fund due to Building Fund for laptop revenues	100,302
Child Development Fund due to General Fund for payroll, program and indirect costs	100,651
Child Development Fund due to Self Insurance Fund for workers compensation	1,658
Cafeteria Fund due to General Fund for indirect costs	131,214
Capital Facilities Fund due to General Fund for salary and payroll costs	1,207
Capital Facilities Fund due to Self Insurance Fund for workers compensation costs	59
Self-Insurance Fund due to General Fund for claims, payroll, and invoicing costs	11,410
Total	$ 406,225

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 2011-12 fiscal year were as follows:

Building Fund transfer to General Fund for support of the International Baccalaureate program at Beechwood School	$ 33,000
General Fund transfer to Building Fund for laptop revenues	448,516
Special Reserve Fund for Capital Outlay Projects transfer to Building Fund for debt service payments	100,694
Special Reserve Fund for Capital Outlay Projects transfer to General Fund for the laptop program	300,000
Total	$ 882,210

During the 2011-12 fiscal year, the District made interfund transfers of $580,000 from the Special Reserve for Postemployment Benefits to the General Fund for retiree benefits and $1,498,215 from the Special Reserve for Other Than Capital Outlay to the General Fund for mandated cost revenue. As described in Note 1E and in accordance with GASB Statement No. 54, the Special Reserve Fund for Postemployment Benefits and the Special Reserve Fund for Other Than Capital Outlay Projects are reported within the General Fund in these financial statements, therefore all interfund activity has been removed from the fund financial statements.

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy
During the 2010-11 fiscal year, pursuant to GASB Statement No.54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the governing board has provided otherwise in its commitment or assignment actions.

At June 30, 2012, fund balances of the District's governmental funds were classified as follows:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	$ 100,000	$ 820	$ -	$ 100,820
Stores inventories	94,810	62,808	-	157,618
Prepaid expenditures	1,135,746	-	-	1,135,746
Total Nonspendable	1,330,556	63,628	-	1,394,184
Restricted:				
Categorical programs	2,197,514	-	-	2,197,514
Child nutrition program	-	1,312,559	-	1,312,559
Capital projects	-	-	5,415,265	5,415,265
Debt service	-	-	2,479,088	2,479,088
Total Restricted	2,197,514	1,312,559	7,894,353	11,404,426
Assigned:				
Reserve for FTE's	450,000	-	-	450,000
Supplemental grant	35,225	-	-	35,225
Saturday school attendance sites	60,937	-	-	60,937
Gifted and talented education	16,407	-	-	16,407
Peer assistance review	42,821	-	-	42,821
School library improvement	173,295	-	-	173,295
Arts and music	6,545	-	-	6,545
Teacher credentialing	25,008	-	-	25,008
Instructional materials K-8	318,621	-	-	318,621
Candidate subsidy reimbursement	24	-	-	24
Supplementary retirement plan	1,330,872	-	-	1,330,872
School site labs	58,806	-	-	58,806
Child development program	-	-	867,037	867,037
Deferred maintenance program	2,186,168	-	-	2,186,168
Other assignments	2,874,842	-	-	2,874,842
Other postemployment benefits	1,284,348	-	-	1,284,348
Total Assigned	8,863,919	-	867,037	9,730,956
Unassigned:				
Reserve for economic uncertainties	3,048,188	-	-	3,048,188
Remaining unassigned balances	13,409,110	-	-	13,409,110
Total Unassigned	16,457,298	-	-	16,457,298
Total	$ 28,849,287	$ 1,376,187	$ 8,761,390	$ 38,986,864

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012 is shown below:

	Original Balance, July 1, 2011	Adjustments for Restatements	Restated Balance, July 1, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets not being depreciated:						
Land	$ 9,198,655	$ -	$ 9,198,655	$ -	$ -	$ 9,198,655
Total capital assets not being depreciated	9,198,655	-	9,198,655	-	-	9,198,655
Capital assets being depreciated:						
Improvement of sites	16,447,782	3,232,507	19,680,289	-	-	19,680,289
Buildings and improvements	123,717,317	5,202,410	128,919,727	106,247	-	129,025,974
Machinery and equipment	18,521,392	(8,434,917)	10,086,475	493,574	423,047	10,157,002
Total capital assets being depreciated	158,686,491	-	158,686,491	599,821	423,047	158,863,265
Accumulated depreciation for:						
Improvement of sites	(16,447,782)	(176,435)	(16,624,217)	(184,123)	-	(16,808,340)
Buildings and improvements	(40,484,560)	176,435	(40,308,125)	(4,312,796)	-	(44,620,921)
Machinery and equipment	(9,098,350)	-	(9,098,350)	(196,824)	(423,047)	(8,872,127)
Total accumulated depreciation	(66,030,692)	-	(66,030,692)	(4,693,743)	(423,047)	(70,301,388)
Total capital assets being depreciated, net	92,655,799	-	92,655,799	(4,093,922)	-	88,561,877
Governmental activity capital assets, net	$ 101,854,454	$ -	$ 101,854,454	$ (4,093,922)	$ -	$ 97,760,532

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 is shown below:

	Balance, July 1, 2011*	Additions	Deductions	Balance, June 30, 2012	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	$ 41,760,458	$ -	$ 2,220,000	$ 39,540,458	$ 1,735,000
Accreted interest	2,724,598	409,138	-	3,133,736	-
Unamortized issuance premium	2,944,061	-	185,411	2,758,650	185,411
Total General Obligation Bonds	47,429,117	409,138	2,405,411	45,432,844	1,920,411
Certificates of Participation	6,670,000	6,935,000	6,835,000	6,770,000	300,000
Fullerton RDA Loan	440,442	-	31,460	408,982	31,460
Capital Leases	835,384	371,870	483,702	723,552	356,106
Early Retirement Incentive	1,774,493	-	443,623	1,330,870	443,623
Compensated Absences	1,280,573	-	54,624	1,225,949	-
Other Postemployment Benefits	2,909,310	955,189	-	3,864,499	-
Totals	$ 61,339,319	$ 8,671,197	$ 10,253,820	$ 59,756,696	$ 3,051,600

**Special assessment debt of $8,345,951 has been removed from the long-term liabilities in accordance with GASB Statement No. 6. In addition, the beginning balance of deferred charges on refunding ($1,675,847) is no longer being shown as a negative long-term liability, but rather as an asset on the Statement of Net Assets.*

A. General Obligation Bonds

On March 5, 2002, a special election was held at which more than 55 percent of the voters in the District approved Measure "CC", which authorized the issuance and sale of $49.7 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. The bonds were issued to finance the construction of new facilities, such as multipurpose rooms, and renovation and improvement at existing schools and to fund a portion of the cost of construction of a new elementary school.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2010 General Obligation Refunding Bonds
On December 1, 2010, the District issued $27,645,000 of 2010 General Obligation Refunding Bonds. The bonds consist of serial bonds bearing fixed rates ranging from 2.0% to 5.0% with annual maturities from August 2011 through August 2026. The net proceeds of $30,215,831 (after issuance costs of $389,721, plus premium of $2,960,552) were used to advance refund $27,645,000 of the District's outstanding Election of 2002, Series A General Obligation Bonds, in addition to paying the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on the refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on the refunding of $1,571,107 remain to be amortized. As of June 30, 2012 the principal balance was fully defeased.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2011	Additions	Deductions	Balance June 30, 2012
2002 A	7/3/2002	8/1/2023	3.25%-5.375%	$ 40,000,458	$ 5,805,458	$ -	$ 1,260,000	$ 4,545,458
2002 B	8/23/2005	8/1/2026	3.9%-4.5%	9,699,542	8,310,000	-	340,000	7,970,000
2010 Ref.	12/1/2010	8/1/2026	2.0%-5.0%	27,645,000	27,645,000	-	620,000	27,025,000
				$ 77,345,000	$ 41,760,458	$ -	$ 2,220,000	$ 39,540,458

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2012 were as follows:

Fiscal Year	Principal	Interest	Total
2012-13	$ 1,735,000	$ 1,530,081	$ 3,265,081
2013-14	1,895,000	1,474,031	3,369,031
2014-15	2,070,000	1,412,981	3,482,981
2015-16	2,265,000	1,329,581	3,594,581
2016-17	2,475,000	1,238,806	3,713,806
2017-22	12,231,886	10,001,604	22,233,490
2022-27	16,868,572	7,516,335	24,384,907
Total	$ 39,540,458	$ 24,503,419	$ 64,043,877

B. Certificates of Participation

2011 Refunding Certificates of Participation
On November 10, 2011, the District issued $6,935,000 of Refunding Certificates of Participation. The Certificates bear fixed interest rates averaging 3.4% with annual maturities from June 1, 2012 through June 1, 2029. The net proceeds of $6,832,899 (after issuance costs of $102,101) were used to prepay the District's outstanding Certificates of Participation.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

2011 Refunding Certificates of Participation (continued)
The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded certificates. As a result, the refunded certificates are considered to be defeased, and the related liability for the certificates has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of $153,849 remain to be amortized. As of June 30, 2012, the principal balance outstanding on the defeased debt amounted to $6,430,000.

The refunding decreased the District's total debt service payments by $955,286. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new certificates of $737,877).

As of June 30, 2012, the annual requirements to amortize all certificates were as follows:

Fiscal Year	Principal	Interest	Total
2012-13	$ 300,000	$ 227,630	$ 527,630
2013-14	310,000	217,345	527,345
2014-15	320,000	206,720	526,720
2015-16	330,000	195,755	525,755
2016-17	345,000	184,365	529,365
2017-22	1,900,000	737,290	2,637,290
2022-27	2,250,000	388,110	2,638,110
2027-29	1,015,000	43,350	1,058,350
Total	$ 6,770,000	$ 2,200,565	$ 8,970,565

C. Fullerton Redevelopment Agency Loan
An agreement was entered into May 16, 2000 for the Fullerton Redevelopment Agency to loan $1,320,000 to the District for the expansion of Maple Elementary School. The District received the proceeds from the loan July, 2000. The loan does not accrue interest. Payments are due each July beginning in 2001 for 25 years.

The payment amount is based on the outstanding loan balance at each June 30. Repayment requirements on the June 30, 2012 balance are as follows:

Fiscal Year	Principal
2012-13	$ 31,460
2013-14	31,460
2014-15	31,460
2015-16	31,460
2016-17	31,460
2017-22	157,300
2022-25	94,382
Total	$ 408,982

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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

Fiscal Year	Principal	Interest	Total
2012-13	$ 356,106	$ 38,839	$ 394,945
2013-14	237,396	16,856	254,252
2014-15	130,050	5,565	135,615
Total	$ 723,552	$ 61,260	$ 784,812

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

E. Early Retirement Incentives
The District has entered into an agreement for early retirement incentives for eligible employees. Eligibility requirements are that employees must be age 55 with 10 years of District service or age 50 with 30 years of District service.

The future obligations under this plan is shown below:

Fiscal Year	Principal
2012-13	$ 443,623
2013-14	443,623
2014-15	443,624
Total	$ 1,330,870

F. Non-Obligatory Debt
Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $8,136,379 as of June 30, 2012, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT POWERS AGREEMENTS

The Fullerton School District participates in two joint ventures under a joint powers agreement (JPA), the Schools Excess Liability Fund (SELF) and Alliance of Schools for Cooperative Insurance Programs (ASCIP). The relationship between the Fullerton School District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes as explained below:

SELF arranges for and provides a self-funded excess liability fund for approximately 1,100 public educational agencies. ASCIP arranges for and provides property and liability insurance for its member school districts. The JPAs are governed by boards consisting of representatives from certain member districts. The Boards control the operation of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation of the Board. Each member pays an annual contribution based upon that calculated by the JPAs' Boards and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed audited financial information for the year ended June 30, 2011 is as follows:

	ASCIP (in thousands)		SELF (in thousands)	
Total Assets	$	256,717	$	174,774
Total Liabilities		144,684		141,524
Net Assets	$	112,033	$	33,250
Total Revenues	$	180,971	$	7,095
Total Expenses		178,239		12,425
Total Non-Operating Revenues		3,346		2,070
Change in Net Assets	$	6,078	$	(3,260)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

NOTE 10 – RISK MANAGEMENT

Property and Liability
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation
For fiscal year 2012, the District was self-funded for workers compensation, with coverage purchased from a private insurer for claims in excess of the $1.0 million retention amount.

Employee Medical Benefits
The District has contracted through Metropolitan Employees Benefit Association Trust (MEBA), Anthem Blue Cross and Kaiser Permanente to provide employee medical and surgical benefits, Delta Dental and Deltacare USA for dental benefits and Vision Service Plan (VSP).

Claims Liability
The District records an estimated liability for workers' compensation claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities
The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

	Workers' Compensation
Liability Balance, July 1, 2010	$ 1,418,109
Claims and changes in estimates	688,992
Claims payments	(731,556)
Liability Balance, June 30, 2011	1,375,545
Claims and changes in estimates	1,340,197
Claims payments	(1,356,018)
Liability Balance, June 30, 2012	$ 1,359,724
Assets available to pay claims at June 30, 2012	$ 3,261,091

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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).

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

Plan Description and Provisions

Public Employees' Retirement System (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 comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy
Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2011-12	$ 1,737,862	100%
2010-11	$ 1,657,723	100%
2009-10	$ 1,529,295	100%

State Teachers' Retirement System (STRS)

Plan Description
The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy
Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2011-12 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 last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2011-12	$ 4,238,850	100%
2010-11	$ 3,975,190	100%
2009-10	$ 4,302,698	100%

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately $2.2 million to STRS (4.267% of salaries subject to STRS in 2011-12).

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Fullerton School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	134
Active plan members*	910
Total	1,044

** According to the July 1, 2011 actuarial valuation*

Plan Descriptions and Contribution Information
The District has entered into an agreement with its retired employees that the District will provide health benefits as follows:

Certificated personnel – Based on the Certificated FETA Agreement 6/30/07-6/30/10; retirees age 55 to 65 with at least ten (10) years of service who retire from the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) and remain fully retired as defined by the appropriate retirement system shall be provided group medical insurance until reaching age 65 or Medicare eligibility, when this benefit will cease.

Eligible retired employees may elect to cover a spouse, at no cost to the District, by paying the difference of a Two Party plan less the Single coverage.

Currently, retirees received up to the value of single PPO dental coverage, however, this is not defined in contract language, this has been "past practice" and provided to retirees at District cost.

Retirees are able to purchase COBRA vision benefits for up to 18 months at their own expense.

Classified personnel – Based on the Classified CSEA Agreement 7/1/09-6/30/12 that was ratified 7/2011; retirees age 55 to 65 with at least ten (10) years of service who retire under PERS and remain fully retired as defined by the appropriate retirement system shall be provided group medical insurance until reaching age 65 or Medicare eligibility, when this and all benefit(s) will cease.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)

Classified personnel (continued) - Provisions effective for post 7/2011 retirement:

- For employees who work less than full-time but four (4) hours or more per day, the District will contribute a pro rata share of the medical insurance based on the relationship of hours worked to full-time employment. Bus drivers will be calculated at a minimum of six (6) hours per day. If they retire at a higher number of hours the benefits will be calculated upon the higher number of hours.

- Should the retiree accept medical, dental, or vision benefitted employment with another employer or are covered by spousal/RDP benefits after retiring, the dual covered benefit as defined in this section will cease.

Retirees will receive up to the value of the pro rata single PPO dental coverage.

Retirees will receive up to the pro rata two-party vision coverage.

If the retiree elects to have group medical coverage for his/her spouse/RDP, the District will contribute up to the pro rata share of the cost, based on the relationship of hours worked to full-time employment, for the median value of the lowest two-party HMO plan and the highest two-party HMO plan. To be eligible for such coverage, the spouse/RDP must be covered prior to retirement.

Management - Based on the FESMA Management Policies revised July 2010; retirees age 55 to 65 with at least ten (10) years of service who retire under PERS or STRS and remain fully retired as defined by the appropriate retirement system shall be provided group medical insurance until reaching age 65 or Medicare eligibility, when this and all benefit(s) will cease *(five (5) years of management work in another district will be credited toward the years of service to qualify for District insurance benefits).*

If the retiree elects to have group medical coverage for his/her spouse, the District will contribute the entire cost for either two-party HMO plan; should the retiree choose the PPO plan, the retiree will pay all costs over the highest cost two-party HMO on a monthly basis. To be eligible for such contribution, an employee shall have their spouse covered for at least twelve (12) months prior to retirement.

Qualified retirees will maintain District paid single dental and vision through age 65 or Medicare eligibility. Coverage for spouse may be added at the expense of the retiree.

Supplemental health programs will be made available for retiree and their spouse at their expense after age sixty-five (65).

Retirees who do not meet the eligibility requirements at retirement may purchase District insurance at their expense for up to five (5) years, if upon retirement they have worked at least five (5) years for the District.

Special Arrangements
A former Superintendent received full family medical, dental, vision, and subsidized life insurance to age 65. After age 65, the Superintendent receives lifetime Employee Plus One Medicare supplemental coverage (currently age 65).

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Special Arrangements (continued)
The former Asst. Superintendent of Business receives full medical, dental and vision, plus one dependent medical and dental through age 65 (currently age 62).

The current Superintendent and Asst. Superintendents receive full medical, dental and vision, plus one dependent medical and dental through age 65.

Supplemental health programs will be made available for retiree and their spouse at their expense after age sixty-five (65).

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2011-12, the District contributed $1,246,820.

Annual OPEB Cost and Net OPEB Obligation
The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	$ 2,241,237
Interest on net OPEB obligation	145,466
Adjustment to ARC	(184,694)
Annual OPEB cost	2,202,009
Contributions made:	
Implicit rate subsidy	(233,046)
Contributions for pay-as-you-go costs	(1,013,774)
Increase in net OPEB obligation	955,189
Net OPEB liability - July 1, 2011	2,909,310
Net OPEB liability - June 30, 2012	$ 3,864,499

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011-12 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2010	$ 2,186,336	43%	$ 2,070,677
2011	$ 2,160,596	46%	$ 2,909,310
2012	$ 2,202,009	46%	$ 3,864,499

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans
As of July 1, 2011, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $18.4 million and the unfunded actuarial accrued liability (UAAL) was $18.4 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Unit Credit
Amortization Method	Closed, Level Dollar Method
Remaining Amortization Period	30 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rates:	
Medical	5.0-8.0%
Dental and Vision	5.0%

NOTE 13 - ADJUSTMENTS FOR RESTATEMENT

The beginning net assets on the Statement of Activities have been restated by $6,851,386 to remove the balance of special assessment debt outstanding at June 30, 2011 that was previously included in long-term liabilities of $8,345,951, less the balance held in a debt service fund of $1,494,565. As explained in Note 7E, this debt is no longer considered debt of the District and has been removed from the financial statements.

The beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance has been restated by $1,494,565 to remove balances in the Non-Major Governmental Funds associated with the special assessment debt.

Required Supplementary Information

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FULLERTON SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund

For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual *	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	$ 67,717,206	$ 67,308,015	$ 67,409,859	$ 101,844
Federal	8,144,991	10,061,007	9,268,024	(792,983)
Other State	15,741,707	17,193,614	17,288,389	94,775
Other Local	7,647,453	9,105,690	9,120,854	15,164
Total Revenues	99,251,357	103,668,326	103,087,126	(581,200)
Expenditures				
Certificated Salaries	51,775,641	52,098,255	51,555,981	542,274
Classified Salaries	15,698,867	15,903,584	15,411,825	491,759
Employee Benefits	22,561,078	22,231,190	21,715,547	515,643
Books and Supplies	3,618,794	7,535,220	4,616,626	2,918,594
Services and Other Operating Expenditures	7,597,537	7,994,786	6,794,101	1,200,685
Capital Outlay	-	27,440	19,501	7,939
Direct Support/Indirect Costs	(227,084)	(206,136)	(213,052)	6,916
Other Outgo	1,375,529	1,323,429	994,180	329,249
Total Expenditures	102,400,362	106,907,768	100,894,709	6,013,059
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,149,005)	(3,239,442)	2,192,417	5,431,859
Other Financing Sources and Uses				
Interfund Transfers In	1,674,000	2,674,000	2,674,000	-
Interfund Transfers Out	(257,160)	(711,301)	(711,301)	-
Total Other Financing Sources and Uses	1,416,840	1,962,699	1,962,699	-
Net changes in Fund Balances	(1,732,165)	(1,276,743)	4,155,116	5,431,859
Fund Balances, July 1, 2011	14,873,860	18,348,813	18,348,813	-
Fund Balances, June 30, 2012	$ 13,141,695	$ 17,072,070	$ 22,503,929	$ 5,431,859

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FULLERTON SCHOOL DISTRICT

Budgetary Comparison Schedule – Cafeteria Fund

For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
Federal	$ 3,008,779	$ 3,070,643	$ 3,363,830	$ 293,187
Other State	220,332	220,697	244,858	24,161
Other Local	1,359,179	1,406,859	1,287,604	(119,255)
Total Revenues	4,588,290	4,698,199	4,896,292	198,093
Expenditures				
Classified Salaries	1,472,227	1,436,247	1,486,681	(50,434)
Employee Benefits	708,615	698,303	629,639	68,664
Books and Supplies	1,716,570	1,814,044	2,215,076	(401,032)
Services and Other Operating Expenditures	198,434	193,034	172,582	20,452
Capital Outlay	240,000	254,495	102,203	152,292
Direct Support/Indirect Costs	128,986	132,003	131,214	789
Total Expenditures	4,464,832	4,528,126	4,737,395	(209,269)
Excess (Deficiency) of Revenues Over (Under) Expenditures	123,458	170,073	158,897	(11,176)
Fund Balances, July 1, 2011	1,217,290	1,217,290	1,217,290	-
Fund Balances, June 30, 2012	$ 1,340,748	$ 1,387,363	$ 1,376,187	$ 11,176

FULLERTON SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2012

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 13,717,498	$ 13,717,498	0.0%	$ 57,141,920	24.0%
July 1, 2009	$ -	$ 17,237,044	$ 17,237,044	0.0%	$ 68,130,297	25.3%
July 1, 2011	$ -	$ 18,367,142	$ 18,367,142	0.0%	$ 63,252,787	29.0%

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No.34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No.45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2012, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code:

Cafeteria Fund:	
Classified Salaries	$ 50,434
Books and Supplies	401,032

Supplementary Information

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The Fullerton School District was established in 1888. The District boundaries encompass approximately 26 square miles in Orange County. There were no changes in the boundaries of the District during the current year. The District is currently operating 15 elementary schools (K-6), two combined K-8 schools, and three junior high schools.

BOARD OF TRUSTEES

Member	Office	Term Expires
Hilda Sugarman	President	November 30, 2016
Beverly Berryman	Vice-President	November 30, 2014
Janny Meyer	Clerk	November 30, 2014
Chris Thompson	Member	November 30, 2014
Lynn Thornley	Member	November 30, 2016

DISTRICT ADMINISTRATORS

Mitch Hovey, Ed.D., [1]
Superintendent

Janet Morey,
Assistant Superintendent, Educational Services

Mark Douglas,
Assistant Superintendent, Personnel Services

Susan Cross Hume, CPA, CIA, CGMA
Assistant Superintendent, Business Services

[1] Retired as of June 30, 2012. The current Superintendent is Robert Pletka, Ed.D.

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2012

	Second Period Report (Certificate No. 1184FE43)	Annual Report (Certificate No. D502F3D7)
Elementary:		
Kindergarten	1,398.76	1,401.07
Grades 1 through 3	4,321.95	4,313.47
Grades 4 through 6	4,345.50	4,339.74
Grades 7 and 8	2,903.27	2,897.84
Home and hospital	0.90	0.91
Special education	360.27	360.36
Extended year	27.33	27.33
Total Average Daily Attendance	13,357.98	13,340.72

FULLERTON SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2012

	1982-83 Minutes		1986-87 Minutes		2011-12	Number of Days	
Grade Level	Actual	Reduced*	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status
Kindergarten	31,680	29,568	36,000	33,600	36,688	178	Complied
Grade 1	40,480	37,781	50,400	47,040	52,012	178	Complied
Grade 2	40,480	37,781	50,400	47,040	52,205	178	Complied
Grade 3	40,480	37,781	50,400	47,040	52,640	178	Complied
Grade 4	42,240	39,424	54,000	50,400	54,369	178	Complied
Grade 5	42,240	39,424	54,000	50,400	54,369	178	Complied
Grade 6	42,240	39,424	54,000	50,400	54,369	178	Complied
Grade 7	60,896	56,836	54,000	50,400	61,434	178	Complied
Grade 8	60,896	56,836	54,000	50,400	61,434	178	Complied

* Amounts reduced as permitted by Education Code Sections 46201.2(a) and 46201.3(a).

FULLERTON SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2012

General Fund	(Budget) 2013 [2]	2012 [3]	2011	2010
Revenues and other financing sources	$ 99,630,432	$ 105,761,126	$ 101,287,522	$ 98,118,000
Expenditures	102,237,546	100,894,709	96,840,591	99,196,244
Other uses and transfers out	228,827	711,301	412,132	513,260
Total outgo	102,466,373	101,606,010	97,252,723	99,709,504
Change in fund balance (deficit)	(2,835,941)	4,155,116	4,034,799	(1,591,504)
Ending fund balance	$ 19,667,988	$ 22,503,929	$ 18,348,813	$ 14,943,815
Available reserves [1]	$ 13,953,034	$ 16,457,298	$ 11,207,815	$ 8,620,603
Available reserves as a percentage of total outgo	13.6%	16.2%	11.5%	8.6%
Total long-term debt [4]	$ 56,705,096	$ 59,756,696	$ 61,339,319	$ 61,161,388
Average daily attendance at P-2	13,335	13,358	13,287	13,231

The General Fund balance has increased by $7.6 million over the past two years. The fiscal year 2012-13 adopted budget projects a decrease of $2.8 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in one of the past three years, but anticipates an operating deficit for the 2012-13 fiscal year. The total long-term debt has decreased approximately $1.4 million over the past two years.

Average daily attendance has increased by 127 over the past two years. The District anticipates a decrease of 23 ADA for the 2012-13 fiscal year.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] Revised Budget September 2012.

[3] The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

[4] As restated to exclude non-obligatory debt of the District and removal of deferred charges.

FULLERTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
Especially Needy Breakfast Program	10.553	13526	$ 375,228	
National School Lunch Program	10.555	13391	2,712,834	
Summer Food Program	10.559	13004	4,511	
USDA - Donated Foods	10.555	N/A	271,256	
Subtotal Child Nutrition Cluster				$ 3,363,829
Total U.S. Department of Agriculture				3,363,829
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind Act (NCLB):				
Title I, Part A Cluster				
Title I, Part A, Low Income and Neglected	84.010	14329	1,663,395	
Title I, School Improvement Grant	84.010	14955	428,529	
Subtotal Title I, Part A Cluster				2,091,924
Title II, Part A, Improving Teacher Quality Cluster				
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	391,686	
Title II, Part A, Administrator Training	84.367	14344	6,000	
Subtotal Title II, Part A, Improving Teacher Quality Cluster				397,686
Education Technology Grants Cluster				
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	6,239	
ARRA Title II, Part D, Enhancing Education Through Technology (EETT), Competitive Grants	84.386	15126	4,365	
Subtotal Education Technology Grants Cluster				10,604
English Language Acquisition Grants Cluster				
Title III, Immigrant Education Program	84.365	15146	40,335	
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	458,270	
Subtotal English Language Acquisition Grants Cluster				498,605
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332		25,793
Education Jobs Fund (SB 847)	84.410	25152		2,513,392
CREATE Art Grant	Unknown	N/A		280,910
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,249,067	
ARRA IDEA, Part B, Sec 611, Basic Local Assistance Entitlement	84.391	15003	420,212	
IDEA Preschool Grants, Part B, Sec 619 (Age 3-4-5)	84.173	13430	67,693	
IDEA Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	168,487	
Subtotal Special Education Cluster				2,905,459
Total U.S. Department of Education				8,724,373
U.S. Department of Health & Human Services:				
Passed through California Dept. of Health Services:				
Medicaid Cluster				
Medi-Cal Administrative Activities	93.778	10060	269,537	
Medi-Cal Billing Option & Administrative Activities	93.778	10013	209,507	
Subtotal Medicaid Cluster				479,044
Total U.S. Department of Health & Human Services				479,044
Total Expenditures of Federal Awards				$ 12,567,246

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements in any funds.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code sections 46201.2(a) and 46201.3(a).

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.

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

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Other Independent Auditors' Reports

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

Board of Trustees
Fullerton School District
Fullerton, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2012, which collectively comprise Fullerton School District's basic financial statements and have issued our report thereon dated December 5, 2012. 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

Management of Fullerton School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fullerton School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fullerton School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fullerton School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fullerton 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*.

We noted certain matters that we reported to management of Fullerton School District in a separate letter dated December 5, 2012.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, 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.

Nigro & Nigro, PC

December 5, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Fullerton School District
Fullerton, California

Compliance

We have audited Fullerton School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Fullerton School District's major federal programs for the year ended June 30, 2012. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fullerton School District's management. Our responsibility is to express an opinion on Fullerton 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 Fullerton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fullerton School District's compliance with those requirements.

In our opinion, Fullerton School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

Management of Fullerton School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fullerton School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Nigro & Nigro, PC

December 5, 2012

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

We have audited Fullerton School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12,* published by the Education Audit Appeals Panel, for the year ended June 30, 2012. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Fullerton 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Fullerton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with Only One School Serving K-3	4	Not applicable

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Description	Procedures in Audit Guide	Procedures Performed
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable

In our opinion, Fullerton School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012.

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

Nigro & Nigro, PC

December 5, 2012

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.410	Education Jobs Fund
84.367	Title II, Part A Teacher Quality Cluster
84.365	English Language Acquisition Grants Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 377,017
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for state programs:	Unqualified

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2011-12.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2011-12.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no state award findings or questioned costs in 2011-12.

There were no audit findings in 2010-11.

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To the Board of Trustees
Fullerton School District
Fullerton, California

In planning and performing our audit of the basic financial statements of Fullerton School District for the year ending June 30, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 5, 2012, on the financial statements of Fullerton School District.

EXPENDITURES

Observation: During our testing of disbursements at the District Office we noted three out of 35 expenditures that had purchase orders dated after the invoice.

Recommendation: We recommend that all disbursements follow the approval process to ensure that all expenditures are proper liabilities of the District.

INVENTORY

Observation: A blind count is not completed when doing the yearly inventory count at the stores warehouse and food services warehouse. This means that all inventory amounts are known during the count, which provides the employee doing the inventory count the opportunity to put the same number as reported on hand and not what is actually counted on hand.

Recommendation: We recommend that the District begin requiring a blind inventory count to be performed at both warehouses annually.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation*:* During our testing of cash receipting procedures at Parks Junior High, we noted a weakness in internal controls. Our sample of five cash receipts indicated four instances of cash count sheets being the only supporting documentation retained for the fundraiser; thus not providing an adequate audit trail. Without adequate supporting documentation, it is impossible to determine the correct amount of cash that should have been collected from the students. We noted the collection activities without proper supporting documentation were magazine/cookie dough orders, FIES Annual Student Donation collections, choir attire funds, and yearbook collections. Without supporting records the student council has no way to determine if the amount of cash that is being deposited into the bank accurately reflects the amount of cash that should have been deposited.

Recommendation: We recommend that the site begin implementing a better process over the cash collection process.

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To the Board of Trustees
Fullerton School District

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: Our review of ten cash disbursements at Parks Junior High identified the following:

- Three disbursements were selected which had invoice dates that preceded the purchase order and procurement of the required approvals
- Two disbursements were not documented in the Student Council minutes as expended and ratified
- One disbursement was selected for a referee expense in which supporting documentation to validate the expense could not be provided, such as a games schedule, invoice, or supervisor's sign-off.

Recommendation: We recommend that the ASB should be reminded of the principles of sound internal controls over the cash disbursement process. It is important to verify goods/services received and obtain a sign-off prior to paying any invoice. A purchase order should be issued and all required signatures be obtained prior to the purchase of the goods. In addition, all expenses should be, at a minimum, ratified through the Student Council.

Observation: During our review of the club/trust accounts in the ASB accounts at Parks Junior High we identified two that appear questionable in name and operation: Memorial Fund and Fullerton Interfaith Emergency Service Project (FIES). Based on information from the site staff, the clubs raise money to donate to local projects. There are certain circumstances in which donations may be acceptable, but in general they require that the opening of a separate bank account and/or stipulating that all funds collected are going to the charity. However, once the funds are deposited into the ASB bank account they become ASB funds and are considered public monies which are not eligible for donation.

Recommendation: We would recommend the site review its procedures and ensure that proper procedures are followed on these types of collection activities.

Observation: Our sample of five cash receipts at Nicolas Junior High included two collections that were deposited nearly three months after the point of collection. The first exception was for funds collected from a fundraiser with Yogurtland where $1,025 was collected in late November and not deposited until mid February. The other was for yearbook collections which were made at the beginning of the school year and not deposited until mid November, which totaled $1,400.

Recommendation: We recommend that deposits of the collections be entered into the accounting software and deposited within one to two weeks. Timely deposits of cash discourage theft of the ASB funds and protect those who handle the cash.

Observation: In our sample of disbursements at several schools we noted that many were not approved by any of the three required representatives prior to the invoice date. We noted the following occurrences:

- Nicolas Junior High: three out of five disbursements
- Fisler School: two out of three disbursements
- Ladera Vista Junior High: two out of five disbursements

Recommendation: We recommend that approval for ASB expenditures should be obtained prior to incurring the expense to ensure that only authorized purchases are being made on behalf of the ASB.

To the Board of Trustees
Fullerton School District

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: Our sample of five cash receipts at Ladera Vista Junior High identified one instance where collections were made for Valentine Grams, and the deposit of $427 did not have a proper audit trail. Without adequate cash receipting procedures, it is impossible to determine the correct amount of cash that should have been collected and ultimately deposited.

Recommendation: For these types of fundraisers we would recommend either issuing receipts or using a tally sheet to track sales to create a valid audit trail.

We will review the status of the current year comments during our next audit engagement.

Nigro & Nigro, PC

December 5, 2012