FULLERTON
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013

FULLERTON SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2013
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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 fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

JEFF NIGRO, CPA, CFE • ELIZABETH NIGRO, CPA • CJ GAUNDER, CPA • KEVIN BREJNAK, CPA, CFE
PH: 951-698-8783 | FAX: 951-699-1064 | 25220 HANCOCK AVE., STE. 400, MURRIETA, CA 92562 | WEB: www.nncpas.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15, budgetary comparison information on page 51, and schedule of funding progress on page 52 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fullerton School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 5, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

December 5, 2013

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2013. 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 2012-13 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 13,850 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.

Focusing on Excellence

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, 2013, the District's overall financial condition was essentially unchanged from June 30, 2012, as Net Position remained at $80 million. Both revenues and expenditures decreased slightly.

- Overall revenues decreased less than 2%, to $114 million. This reflects continued unchanged funding levels from the Federal and State governments.

- Overall expenditures decreased less than 1%, to $114 million. Normal, ongoing increases in contractual salaries and benefits, as well as inflationary increases for supplies, utilities, and other services were offset by savings accrued to the District from an increase in unpaid furolough days, from two in 2011-12 to five in 2012-13.

- Since revenues decreased slightly more than expenditures, the change in net position moved from a $113 thousand net increase to a $233 thousand net loss. This is essentially a break even for both years.

- Total District-wide expenses were $114.3 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 $87.9 million.

- The District continued to decrease its outstanding long-term debt, showing a $1.35 million reduction for the current year (2.3%). This decrease was primarily due to principal payments made.

General Fund Financial Statements

- The District's General Fund again 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 $101.9 million ($78.7 million Unrestricted, $23.2 million Restricted) were received.

- Expenditures of $98.9 million ($69.7 million Unrestricted, $29.2 million Restricted) were made.

FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)

- Net interfund transfers in of $1.2 million were received.

- The net result of operations was an increase to the ending fund balance of $4.2 million. ($3.5 million Unrestricted, $0.7 million Restricted)

This provided the District with a General Fund ending balance of $ 26.7 million. This was comprised of:

Reserved Amounts	$	1,330,727
Legally Restricted Balances		2,922,037
Board Designated		2,578,065
Designated for Economic Uncertainties		19,877,268
TOTAL	$	26,708,097

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.

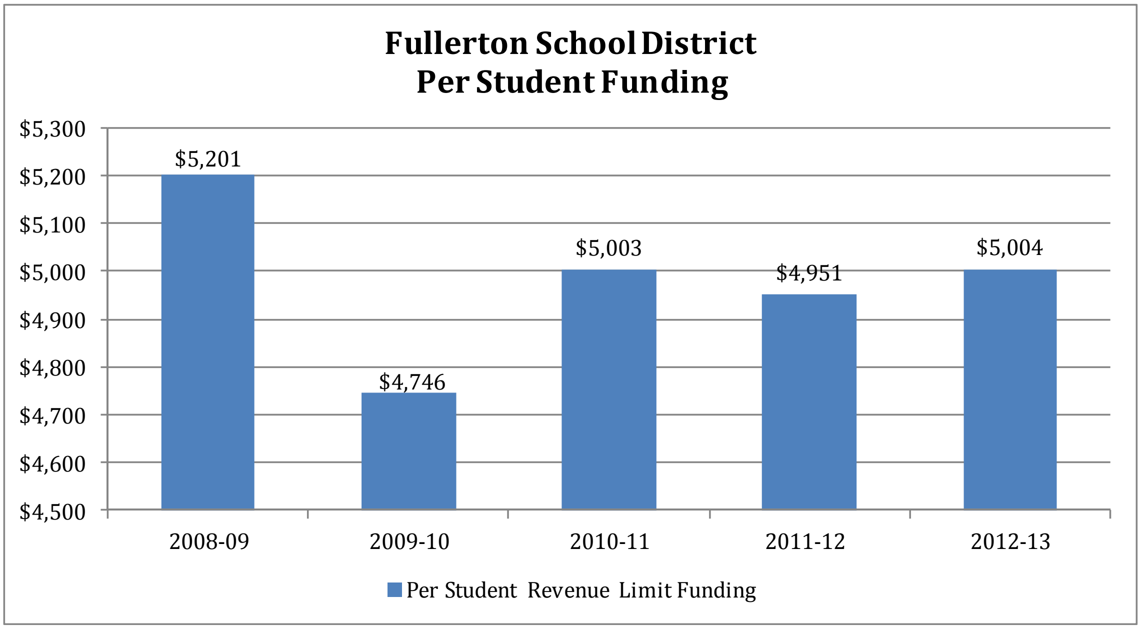
The District's per student base revenue limit (net of any State applied deficit) for the past five years is as follows:

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

Starting in fiscal 2013-14, the State has transitioned to the Local Control Funding Formula and will no longer use the Revenue Limit funding calculation.

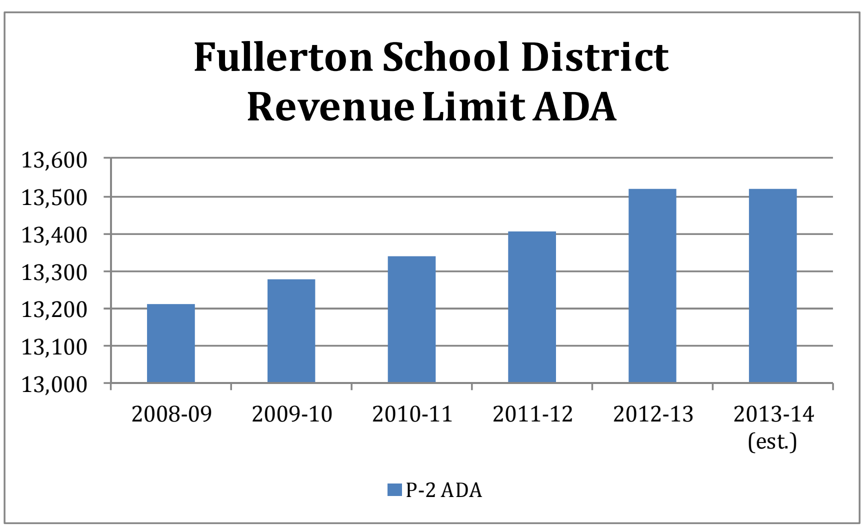
FINANCIAL HIGHLIGHTS (continued)

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:

2008-09	13,209
2009-10	13,276
2010-11	13,338
2011-12	13,405
2012-13	13,520
2013-14(est.)	13,520



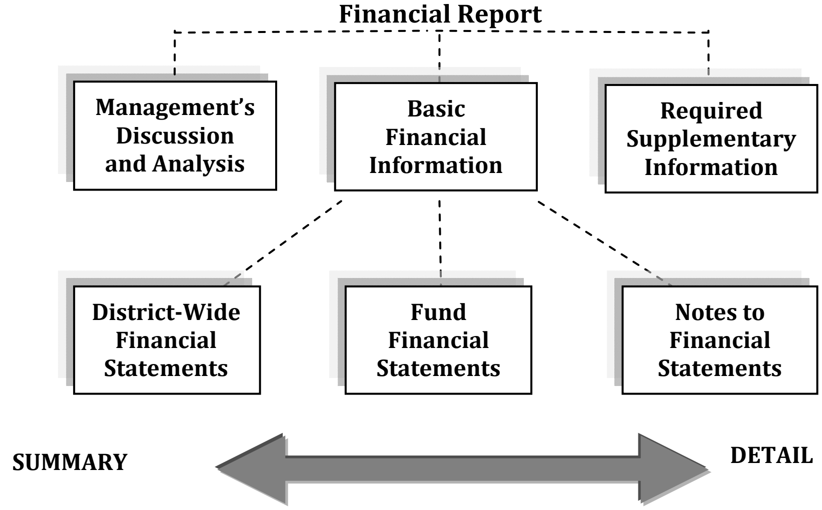
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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.

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



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 Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows	• Statement of Net Position
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 position 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 position and how it has changed. Net Position – the difference between the District's assets and liabilities – is one way to measure the District's financial health.

- Over time, increases and decreases in the District's net position 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 Position 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 position. 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 Position. The District's combined net position was essentially unchanged from June 30, 2012 to 2013, decreasing 0.3%. (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase
	2013	**2012**	**(Decrease)**
Current assets	$ 53,380,056	$ 49,266,597	$ 4,113,459
Non-current assets	2,022,857	2,165,243	(142,386)
Capital assets	93,537,885	97,760,532	(4,222,647)
Total assets	148,940,798	149,192,372	(251,574)
Current liabilities	10,542,613	9,209,021	1,333,592
Long-term liabilities	58,404,941	59,756,696	(1,351,755)
Total liabilities	68,947,554	68,965,717	(18,163)
Net position			
Net investment in capital assets	47,139,469	49,062,281	(1,922,812)
Restricted	12,431,494	9,901,035	2,530,459
Unrestricted	20,422,281	21,263,339	(841,058)
Total net position	$ 79,993,244	$ 80,226,655	$ (233,411)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues decreased 1.3% to $114.1 million (See Table A-2). The decrease is due primarily to decreased federal funding.

The total cost of all programs and services decreased 1.0% to $114.3 million. The District's expenses are predominantly related to educating and caring for students, 81.3%. The purely administrative activities of the District accounted for just 4.6% of total costs. A significant contributor to the decrease in costs was a decrease in instructional expenses.

Table A-2

	Governmental Activities		Variance Increase
	2013	**2012**	**(Decrease)**
Total revenues	$ 114,068,232	$ 115,489,801	$ (1,421,569)
Total expenses	114,301,643	115,376,641	(1,074,998)
Increase (decrease) in net position	$ (233,411)	$ 113,160	$ (346,571)

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, 2013, the District reported a combined fund balance of $42.2 million for all of its governmental funds, which represents an increase of $3.2 million to last year's ending fund balance of $39.0 million. This increase was caused primarily by decreased instructional spending. The increase in liabilities was due to overpayment from the State for revenue limit.

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 2012-13 fiscal year in June, 2010, as part of the three year projection included with its 2010-11 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 2012-13 "Final" budget was officially approved by the Board of Trustees on June 26, 2012. 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 $4.2 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, 2012 (more revenue was carried over than expected so budgets increased for 2012-13.) 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.)
- Expenses – budget increased $2.3 million, primarily to reflect expenditure of carryover amounts.

While the District's final revised budget for the General Fund anticipated revenues would fall short of expenditures by about $2.3 million, the actual results for the year show that revenues exceeded expenditures by roughly $2.9 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

During 2012-13 the District had invested nearly $700,000 in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $4.9 million.

Table A-3: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase
	2013	2012	(Decrease)
Land	$ 9,198,655	$ 9,198,655	$ -
Improvement of sites	2,687,826	2,871,949	(184,123)
Buildings and improvements	80,215,982	84,405,053	(4,189,071)
Machinery and equipment	1,435,422	1,284,875	150,547
Total	$ 93,537,885	$ 97,760,532	$ (4,222,647)

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had $58.4 million in general obligation bonds, certificates of participation, RDA loans, capital leases and employment benefits – a net decrease of 2.3% 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
	2013	2012	(Decrease)
General obligation bonds	$ 43,944,633	$ 45,432,844	$ (1,488,211)
Certificates of participation	6,470,000	6,770,000	(300,000)
RDA loans	377,522	408,982	(31,460)
Capital leases	698,027	723,552	(25,525)
Early retirement incentives	887,247	1,330,870	(443,623)
Compensated absences	1,259,522	1,225,949	33,573
Other postemployment benefits	4,767,990	3,864,499	903,491
Total	$ 58,404,941	$ 59,756,696	$ (1,351,755)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line–item veto authority to reduce or eliminate non–Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by $5.6 million.

The state spending plan assumes total budget expenditures of $138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012–13. This consists of $96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as $42 billion from special funds. The budget estimates that spending from federal funds in 2013–14 will total $87.6 billion, an increase of 7.7 percent over 2012–13.

The administration's May Revision estimates of 2012–13 revenues were about $2.3 billion higher than when the 2012–13 spending plan was adopted last year. These higher revenues result in $2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K–14 education. In addition, higher expenditures in other areas contributed to the estimated 2012–13 General Fund ending balance being about $694 million lower than was assumed in the 2012–13 spending plan. Nevertheless, under the spending plan 2012–13 would end with a $254 million reserve, the first such year–end positive balance in the reserve since 2007–08.

The spending plan assumes General Fund and Education Protection Account revenues of $97.1 billion and expenditures of $96.3 billion. The resulting $817 million operating surplus combined with the $254 million positive ending balance for 2012–13 produce an estimated $1.1 billion reserve for 2013–14.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Major Spending Changes
For K–12 education, the largest 2013–14 augmentation ($2.1 billion) is for implementing the Local Control Funding Formula (LCFF) for school districts. Other major 2013–14 K–12 augmentations include $406 million in grants and loans for energy projects, an additional $250 million on a one–time basis for the Common Core State Standards initiative, $250 million on a one–time basis for a new Career Pathways program, $50 million to augment the mandate block grant, $32 million to implement the LCFF for county offices of education (COEs), and $10 million to establish the California Collaborative for Educational Excellence (CCEE) to provide low–performing school districts with academic assistance.

The budget also further pays down K–12 deferrals. Additionally, the budget includes a 1.57 percent cost–of–living adjustment (COLA) for certain K–12 categorical programs. The budget includes a slight increase to reflect 0.2 percent growth in K–12 ADA. The budget also provides a $26 million (5 percent) increase to the part–day/part–year State Preschool program to support approximately 7,100 new preschool slots.

In 2013–14, despite fewer overall resources compared to 2012–13, much less funding is designated for paying down deferrals. This frees up funds in 2013–14 that can be used for other purposes. In total, the budget includes a $2.6 billion increase in K–12 ongoing funding. Ongoing funding per student (as measured by ADA) increases from $7,590 in 2012–13 to $8,005 in 2013–14—an increase of $415 (5.5 percent).

LCFF for School Districts and Charter Schools
The budget package includes a major restructuring of the state's funding system for school districts and charter schools. The new LCFF system replaces existing funding formulas for revenue limits and most categorical programs with a weighted student funding formula. Over the course of implementation, districts will receive additional funding to reduce the same share of the gap between their existing per–pupil funding rates and their targets under the LCFF. Full implementation of the LCFF is expected to take eight years (with full implementation in 2020–21) and cost $18 billion (not accounting for future COLA costs). The *2013–14 Budget Act* provides first–year funding of $2.1 billion. This is expected to close 12 percent of each district's gap.

Deferral Paydowns
After four consecutive years of increasing the amount of deferrals for schools and community colleges—reaching a total of $10.4 billion in outstanding deferrals by the end of 2011–12—the 2012–13 budget plan provided $2.2 billion to reduce the amount of outstanding deferrals. The recently enacted budget plan makes an additional $1.8 billion in 2012–13 deferral paydowns as well as $272 million in paydowns in 2013–14. Under the budget package, $6.2 billion in outstanding deferrals remain as of the end of 2013–14.

Common Core Implementation
The budget plan provides $1.25 billion in one–time funding to schools for implementation of the CCSS. (Of this amount, the budget plan counts $1 billion towards meeting the 2012–13 minimum guarantee and $250 million towards meeting the 2013–14 guarantee.) The CCSS are nationally developed standards for math and English/Language Arts that the state adopted in 2010. Under current law, schools are required to align instruction to the CCSS beginning in 2014–15. The $1.25 billion in CCSS funding must be spent in 2013–14 or 2014–15 for professional development, instructional materials, and technology that assist schools in aligning instruction to the CCSS. Local governing boards are required in a series of public meetings to discuss and adopt a plan for spending the funds and must report how the funds were spent to the California Department of Education (CDE) by July 1, 2015.

Proposition 39
Passed by the voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five–year period, starting in 2013–14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Adult Education
In an effort to improve coordination among adult education providers, the budget provides $25 million (Proposition 98 General Fund) for a new Adult Education Consortium Program. School districts and community colleges that form a regional consortium are eligible to apply for these funds.

In a related action, the budget package eliminates school districts' adult education categorical program and consolidates all associated annual funding ($635 million Proposition 98 General Fund) into the school district LCFF. The budget package, however, contains a requirement for school districts (through their adult schools) to maintain at least their 2012–13 level of state spending on adult education in 2013–14 and 2014–15.

New Career Pathways Program
The budget provides $250 million in one–time Proposition 98 funding to create a "California Career Pathways Trust." The primary purpose of the new program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K–14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum.

Special Education
The budget package makes three notable changes to special education funding. First, the package simplifies the state's approach to distributing funding to special education local plan areas (SELPAs) by delinking state and federal special education allocation formulas. A conforming change revises the "statewide target rate" used to fund new students to the updated statewide average per–pupil funding rate. Second, the budget provides $2.6 million in Proposition 98 funds to fully offset federal sequestration funding cuts for preschoolers and infants/toddlers with disabilities and provides $2.1 million in federal carryover funds to partially mitigate federal sequestration funding cuts for K–12 students with disabilities. Third, the package consolidates 11 special education categorical grants into 5 larger grants.

All of these factors were considered in preparing the Fullerton School District budget for the 2013-14 fiscal year.

Effect of the State Budget on Fullerton School District
The District has revised its original (June) 2013-14 budget to reflect the implementation of LCFF. The change from the old Revenue Limit/categorical program funding model to LCFF should benefit the District. For the 2013-14 school year alone the implementation of LCFF equated to $3.5 million in additional funding. Current Department of Finance estimates show that funding would increase 5% in each of the next two fiscal years. While this increased funding is extremely beneficial to the District, the potential restrictions on its use are still unknown, as the Department of Education is currently developing their Local Control Accountability Plans rules and matrix, for release in early 2014. During the rest of this fiscal year the District will be developing its own LCAP and plan for the use of the new funding.

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 Position
June 30, 2013

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	$ 44,075,561
Accounts receivable	7,976,103
Inventories	161,191
Prepaid expenditures	1,167,201
Total current assets	53,380,056
Non-current assets:	
Unamortized debt issuance costs	411,691
Deferred amounts on refunding	1,611,166
Total non-current assets	2,022,857
Capital assets:	
Non-depreciable assets	9,198,655
Depreciable assets	159,551,665
Less accumulated depreciation	(75,212,435)
Total capital assets	93,537,885
Total assets	148,940,798
LIABILITIES	
Current liabilities:	
Accounts payable	10,342,371
Deferred revenues	200,242
Total current liabilities	10,542,613
Long-term liabilities:	
Due or payable within one year	3,209,672
Due or payable after one year	55,195,269
Total long-term liabilities	58,404,941
Total liabilities	68,947,554
NET POSITION	
Net investment in capital assets	47,139,469
Restricted for:	
Capital projects	4,041,518
Debt service	2,741,098
Categorical, childcare, and nutrition programs	5,648,878
Unrestricted	20,422,281
Total Net Position	$ 79,993,244

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Instructional Services:				
Instruction	$ 71,197,488	$ 35,878	$ 15,334,820	$ (55,826,790)
Instruction-Related Services:				
Supervision of instruction	2,445,686	2,323	1,724,251	(719,112)
Instructional library, media and technology	1,953,391	41	86,483	(1,866,867)
School site administration	7,492,080	1,473	647,425	(6,843,182)
Pupil Support Services:				
Home-to-school transportation	1,758,238	79,771	1,023,629	(654,838)
Food services	4,433,672	-	3,606,185	(827,487)
All other pupil services	3,625,594	4,545	1,608,581	(2,012,468)
General Administration Services:				
Other general administration	5,297,954	223	572,658	(4,725,073)
Plant services	8,271,948	9	87,203	(8,184,736)
Transfers Between Agencies	847,441	-	-	(847,441)
Debt issuance costs	142,386	-	-	(142,386)
Interest on long-term debt	1,924,718	-	-	(1,924,718)
Other outgo	-	41,030	1,577,422	1,618,452
Depreciation (unallocated)	4,911,047	-	-	(4,911,047)
Total Governmental Activities	$ 114,301,643	$ 165,293	$ 26,268,657	(87,867,693)

General Revenues:	
Property taxes	42,601,247
Federal and state aid not restricted to specific purpose	40,767,594
Interest and investment earnings	136,465
Miscellaneous	4,128,976
Total general revenues	87,634,282
Change in net position	(233,411)
Net position - July 1, 2012	80,226,655
Net position - June 30, 2013	$ 79,993,244

FULLERTON SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 29,975,951	$ 10,862,874	$ 40,838,825
Accounts receivable	6,815,501	1,112,117	7,927,618
Due from other funds	140,170	85,419	225,589
Inventories	64,035	97,156	161,191
Prepaid expenditures	1,166,693	508	1,167,201
Total Assets	$ 38,162,350	$ 12,158,074	$ 50,320,424
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 6,839,182	$ 799,716	$ 7,638,898
Due to other funds	161,187	139,717	300,904
Deferred revenue	15,808	183,354	199,162
Total Liabilities	7,016,177	1,122,787	8,138,964
Fund Balances			
Nonspendable	1,330,728	98,484	1,429,212
Restricted	2,922,037	10,936,803	13,858,840
Assigned	7,016,141	-	7,016,141
Unassigned	19,877,267	-	19,877,267
Total Fund Balances	31,146,173	11,035,287	42,181,460
Total Liabilities and Fund Balances	$ 38,162,350	$ 12,158,074	$ 50,320,424

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Total fund balances - governmental funds			$ 42,181,460
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	$ 168,750,320	
	Accumulated depreciation	(75,212,435)	
	Net:		93,537,885
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:			(635,677)
Deferred amounts 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 they are recognized as an asset. The remaining deferred amonts on refunding at the end of the period were:			1,611,166
In governmental funds, debt issuance 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 position are:			411,691
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	$ 43,944,633	
	Certificates of participation payable	6,470,000	
	Fullerton RDA loan payable	377,522	
	Capital leases	698,027	
	Early retirement incentive	887,247	
	Compensated absences payable	1,259,522	
	Other postemployment benefits payable	4,767,990	(58,404,941)
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 position. Net position for internal service funds is:			1,291,660
Total net position - governmental activities			$ 79,993,244

FULLERTON SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2013

REVENUES	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenue limit sources	$ 68,302,111	$ -	$ 68,302,111
Federal sources	5,986,374	3,632,878	9,619,252
Other state sources	18,213,090	1,300,034	19,513,124
Other local sources	9,450,898	7,182,847	16,633,745
Total Revenues	101,952,473	12,115,759	114,068,232
EXPENDITURES			
Current:			
Instruction	68,264,195	2,265,943	70,530,138
Instruction-Related Services:			
Supervision of instruction	2,423,941	3,544	2,427,485
Instructional library, media and technology	1,939,363	-	1,939,363
School site administration	7,181,298	243,866	7,425,164
Pupil Support Services:			
Home-to-school transportation	1,744,720	-	1,744,720
Food services	-	4,585,739	4,585,739
All other pupil services	3,585,660	9,689	3,595,349
General Administration Services:			
Other general administration	5,145,820	-	5,145,820
Plant services	7,748,968	85,834	7,834,802
Transfers of indirect costs	(316,885)	316,885	-
Capital outlay	229,742	650,763	880,505
Intergovernmental	847,441	-	847,441
Debt service:			
Principal	300,000	2,122,566	2,422,566
Interest	227,630	1,597,495	1,825,125
Total Expenditures	99,321,893	11,882,324	111,204,217
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,630,580	233,435	2,864,015
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	19,900	432,817	452,717
Interfund transfers out	(353,594)	(99,123)	(452,717)
Proceeds from capital leases	-	330,581	330,581
Total Other Financing Sources and Uses	(333,694)	664,275	330,581
Net Change in Fund Balances	2,296,886	897,710	3,194,596
Fund Balances, July 1, 2012	28,849,287	10,137,577	38,986,864
Fund Balances, June 30, 2013	$ 31,146,173	$ 11,035,287	$ 42,181,460

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, 2013

Total net change in fund balances - governmental funds			$ 3,194,596
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	688,400	
	Depreciation expense	(4,911,047)	
	Net:		(4,222,647)
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:			2,422,566
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on refunding and are amortized to interest expense over the life of the liability. The amortization of this during the year was:			(113,790)
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:			(330,581)
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:			(28,596)
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:			(432,200)
In governmental funds, postemployment benefit costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefit costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was:			(903,491)
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:			113,914
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:			410,050
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.			(528,643)
Change in net position of governmental activities			$ (233,411)

FULLERTON SCHOOL DISTRICT
Statement of Net Position – Proprietary Funds
June 30, 2013

	Governmental Activities
	Internal Service Fund
ASSETS	
Cash	$ 3,236,736
Accounts receivable	48,485
Due from other funds	77,547
Total assets	3,362,768
LIABILITIES	
Accounts payable and accrued liabilities	11,242
Deferred revenue	1,080
Estimated liability for open claims and IBNR	2,056,554
Due to other funds	2,232
Total liabilities	2,071,108
NET POSITION	
Restricted	$ 1,291,660

FULLERTON SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 1,354,575
Other fees and contracts	95,445
Total operating revenues	1,450,020
OPERATING EXPENSES	
Current:	
Classified salaries	96,059
Employee benefits	29,527
Books and supplies	66,370
Services and other operating expenditures	1,797,395
Total operating expenses	1,989,351
Operating Income (Loss)	(539,331)
NON-OPERATING REVENUES	
Interest income	10,688
Change in net position	(528,643)
Net position, July 1, 2012	1,820,303
Net position, June 30, 2013	$ 1,291,660

FULLERTON SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from self-insurance premiums	$ 1,350,063
Cash received from other sources	35,559
Cash paid for operating expenses	(1,359,031)
Net cash provided (used) by operating activities	26,591
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	13,300
Net increase (decrease) in cash	39,891
Cash, July 1, 2012	3,196,845
Cash, June 30, 2013	$ 3,236,736
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (539,331)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in operating assets:	
In accounts receivable	(4,512)
In due from other funds	(59,886)
Increase (decrease) in operating liabilities:	
In accounts payable and current liabilities	638,418
In due to other funds	(9,178)
In deferred revenues	1,080
Net cash provided (used) by operating activities	$ 26,591

FULLERTON SCHOOL DISTRICT
Statement of Net Position – Fiduciary Funds
June 30, 2013

	Agency Funds	
	Associated Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	$ 462,950	$ 14,542
Investments	-	3,489,637
Accounts receivable	-	7
Total Assets	$ 462,950	$ 3,504,186
Liabilities		
Accounts payable	$ -	$ 24,059
Deferred revenue	-	1,965,673
Due to student groups	462,950	-
Due to bondholders	-	1,514,454
Total Liabilities	$ 462,950	$ 3,504,186

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of Fullerton School District and its component units, legally separate organizations for which the District is financially accountable. These component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Trustees also serves as the governing board for the Fullerton School District Capital Facilities Corporation and Community Facilities Districts. Although the board members of the Fullerton School District Facilities Corporation and the CFDs are appointed by the District Board, the entities exist solely to finance the acquisition and construction of equipment and facilities for the District.

Component Unit	Included in the Reporting Entity Because:	Separate Financial Statements
Fullerton School District Capital Facilities 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 November 1, 2011.	Board of Trustees composes board of Financing Authority	Not prepared.
Community Facilities Districts (CFD): The District has entered into various agreements with developers to establish CFDs. The purpose of the agreements is to provide for the collection of special taxes 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.	Board of Trustees composes board of CFDs	Not prepared.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements
The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

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

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. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

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

Special Revenue Funds:

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

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

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 Position, financial position, and cash flows. 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)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds
Fiduciary fund reporting focuses on net position and changes in net position. 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 Special Tax Bonds: 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.

2. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

C. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgets and Budgetary Accounting (continued)

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.

D. 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.

E. Assets, Liabilities, and Net Position

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments". Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

2. Cash and Cash Equivalents

The District considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

3. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position (continued)

5. Capital Assets
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

6. Compensated Absences
The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Fund Balances
The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position (continued)

7. Fund Balances (continued)

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

F. 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.

G. New GASB Pronouncements

During the 2012-13 fiscal year, the following GASB Pronouncements became effective:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*: The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*: The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

GASB Statement No. 61 (continued) This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*: This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2013 are reported at fair value and consisted of the following:

	Rating	Governmental Activities: Governmental Funds	Governmental Activities: Proprietary Fund	Governmental Activities: Total	Fiduciary Funds
Pooled Funds:					
Cash in County Treasury		$ 39,410,650	$ 3,111,736	$ 42,522,386	$ 14,542
Total Pooled Funds		39,410,650	3,111,736	42,522,386	14,542
Deposits:					
Cash on hand and in banks		1,327,355	-	1,327,355	462,950
Cash in revolving fund		100,820	125,000	225,820	-
Total Deposits		1,428,175	125,000	1,553,175	462,950
Total Cash		$ 40,838,825	$ 3,236,736	$ 44,075,561	$ 477,492
Investments:					
U.S. Bank - Money Market	N/A				$ 3,489,637

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, 2013, 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. 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).

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.

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)
As of June 30, 2013, $1,629,798 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, 2013 consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	$ 3,489,637	$ 3,489,637	$ -

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, 2013, 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, 2013, 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, 2013 consisted of the following:

	General Fund	Non-Major Governmental Funds	Governmental Funds Totals	Proprietary Fund
Federal Government:				
Categorical aid programs	$ 1,936,217	$ 857,999	$ 2,794,216	$ -
State Government:				
Lottery	1,081,917	-	1,081,917	-
Categorical aid programs	2,363,510	228,849	2,592,359	-
Local:				
Special education	296,871	-	296,871	-
Interest	13,453	1,604	15,057	809
Other local	388,024	-	388,024	-
Miscellaneous	735,509	23,665	759,174	47,676
Total	$ 6,815,501	$ 1,112,117	$ 7,927,618	$ 48,485

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2013 consisted of the following:

	Due From Other Funds				
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Funds	Total
General Fund	$ -	$ 85,419	$ 85,419	$ 75,768	$ 161,187
Non-Major Governmental Funds	137,938	-	137,938	1,779	139,717
Proprietary Funds	2,232	-	2,232	-	2,232
Total	$ 140,170	$ 85,419	$ 225,589	$ 77,547	$ 303,136

General Fund due to Building Fund for laptop revenues	$ 23,602
Child Development Fund due to General Fund for payroll, program and indirect costs	136,879
Self-Insurance Fund due to General Fund for payroll expense	2,232
General Fund due to Child Development Fund for revenues, indirect costs, and expense reimbursement	61,817
General Fund due to Self-Insurance Fund for workers' compensation expense	75,768
Capital Facilities Fund due to General Fund for payroll expense	1,059
Child Development Fund due to Self-Insurance Fund for workers' compensation expense	1,720
Capital Facilities Fund due to Self-Insurance Fund for workers' compensation expense	59
Total	$ 303,136

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2013 consisted of the following:

Building Fund transfer to General Fund to support IB program at Beechwood School	$ 19,900
Special Reserve Fund for Capital Outlay Projects transfer to Building Fund for a debt service payment	79,223
General Fund transfer to Building Fund for laptop fees collected in the General Fund	353,594
Total	$ 452,717

During the 2012-13 fiscal year, the District made interfund transfers of $1,000,000 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 1B 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.

NOTE 5 – FUND BALANCES (continued)

Minimum Fund Balance Policy (continued)
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, 2013, fund balances of the District's governmental funds were classified as follows:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable:			
Revolving cash	$ 100,000	$ 820	$ 100,820
Stores inventories	64,035	97,156	161,191
Prepaid expenditures	1,166,693	508	1,167,201
Total Nonspendable	1,330,728	98,484	1,429,212
Restricted:			
Categorical programs	2,922,037	-	2,922,037
Child development program	-	1,124,197	1,124,197
Child nutrition program	-	1,504,160	1,504,160
Capital projects	-	5,567,348	5,567,348
Debt service	-	2,741,098	2,741,098
Total Restricted	2,922,037	10,936,803	13,858,840
Assigned:			
Gifted and talented education	44,352	-	44,352
Site discretionary	409,092	-	409,092
Peer assistance review	49,883	-	49,883
Arts and music	16,490	-	16,490
Beginning teacher training	57,571	-	57,571
Instructional materials K-8	663,429	-	663,429
Reserve for FTEs	450,000	-	450,000
Supplementary retirement plan	887,248	-	887,248
Deferred maintenance program	1,856,761	-	1,856,761
Other assignments	1,874,842	-	1,874,842
Other postemployment benefits	706,473	-	706,473
Total Assigned	7,016,141	-	7,016,141
Unassigned:			
Reserve for economic uncertainties	2,980,152	-	2,980,152
Remaining unassigned balances	16,897,115	-	16,897,115
Total Unassigned	19,877,267	-	19,877,267
Total	$ 31,146,173	$ 11,035,287	$ 42,181,460

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance, July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land	$ 9,198,655	$ -	$ -	$ 9,198,655
Total capital assets not being depreciated	9,198,655	-	-	9,198,655
Capital assets being depreciated:				
Improvement of sites	19,680,289	-	-	19,680,289
Buildings and improvements	129,025,974	192,071	-	129,218,045
Machinery and equipment	10,157,002	496,329	-	10,653,331
Total capital assets being depreciated	158,863,265	688,400	-	159,551,665
Accumulated depreciation for:				
Improvement of sites	(16,808,340)	(184,123)	-	(16,992,463)
Buildings and improvements	(44,620,921)	(4,381,142)	-	(49,002,063)
Machinery and equipment	(8,872,127)	(345,782)	-	(9,217,909)
Total accumulated depreciation	(70,301,388)	(4,911,047)	-	(75,212,435)
Total capital assets being depreciated, net	88,561,877	(4,222,647)	-	84,339,230
Governmental activity capital assets, net	$ 97,760,532	$ (4,222,647)	$ -	$ 93,537,885

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2013 were as follows:

	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	$ 39,540,458	$ -	$ 1,735,000	$ 37,805,458	$ 1,895,000
Accreted interest	3,133,736	432,200	-	3,565,936	-
Unamortized issuance premium	2,758,650	-	185,411	2,573,239	185,411
Total General Obligation Bonds	45,432,844	432,200	1,920,411	43,944,633	2,080,411
Certificates of Participation	6,770,000	-	300,000	6,470,000	310,000
Fullerton RDA Loan	408,982	-	31,460	377,522	31,460
Capital Leases	723,552	330,581	356,106	698,027	344,178
Early Retirement Incentive	1,330,870	-	443,623	887,247	443,623
Compensated Absences	1,225,949	33,573	-	1,259,522	-
Other Postemployment Benefits	3,864,499	903,491	-	4,767,990	-
Totals	$ 59,756,696	$ 1,699,845	$ 3,051,600	$ 58,404,941	$ 3,209,672

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the General Fund. Capital leases payments are made by the Building Fund. RDA Loan payments are made from the Capital Facilities Fund. Accumulated vacation, early retirement incentives, and other postemployment benefits will be paid for by the fund for which the employee worked.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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.

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 amounts on the refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on the refunding of $1,466,367 remain to be amortized. As of June 30, 2013 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, 2012	Additions	Deductions	Balance June 30, 2013
2002 A	7/3/2002	8/1/2023	3.25%-5.375%	$ 40,000,458	$ 4,545,458	$ -	$ -	$ 4,545,458
2002 B	8/23/2005	8/1/2026	3.9%-4.5%	9,699,542	7,970,000	-	360,000	7,610,000
2010 Ref.	12/1/2010	8/1/2026	2.0%-5.0%	27,645,000	27,025,000	-	1,375,000	25,650,000
				$ 77,345,000	$ 39,540,458	$ -	$ 1,735,000	$ 37,805,458

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2013 were as follows:

Fiscal Year	Principal	Interest	Total
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
2017-18	2,690,000	1,139,769	3,829,769
2018-23	11,264,688	12,535,974	23,800,662
2023-27	15,145,770	3,842,196	18,987,966
Total	$ 37,805,458	$ 22,973,338	$ 60,778,796

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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.

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 amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of $144,799 remain to be amortized. As of June 30, 2013, the principal balance outstanding on the defeased debt amounted to $6,470,000.

As of June 30, 2013, the annual requirements to amortize all certificates were as follows:

Fiscal Year	Principal	Interest	Total
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
2017-18	355,000	172,635	527,635
2018-23	1,965,000	672,095	2,637,095
2023-28	2,330,000	310,930	2,640,930
2028-29	515,000	13,090	528,090
Total	$ 6,470,000	$ 1,972,935	$ 8,442,935

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, 2013 balance are as follows:

Fiscal Year	Principal
2013-14	$ 31,460
2014-15	31,460
2015-16	31,460
2016-17	31,460
2017-18	31,460
2018-23	157,300
2023-25	62,922
Total	$ 377,522

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Capital Leases

The District leases equipment valued at $1.1 million 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
2013-14	$ 344,178	$ 26,547	$ 370,725
2014-15	240,452	11,637	252,089
2014-15	113,397	3,075	116,472
Total	$ 698,027	$ 41,259	$ 739,286

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 are shown below:

Fiscal Year	Principal
2013-14	$ 443,623
2014-15	443,624
Total	$ 887,247

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 $7,915,364 as of June 30, 2013, 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 is as follows:

	SELF June 30, 2013 (in thousands)	ASCIP June 30, 2012 (in thousands)
Total Assets	$ 166,243	$ 272,622
Total Liabilities	129,963	148,239
Net Position	$ 36,280	$ 124,383
Total Revenues	$ 10,829	$ 183,650
Total Expenses	14,165	174,074
Total Non-Operating Revenues	760	2,774
Change in Net Position	$ (2,576)	$ 12,350

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, 2013, 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 2013, 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, 2011 to June 30, 2013:

Liability Balance, July 1, 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
Claims and changes in estimates		2,494,225
Claims payments		(1,797,395)
Liability Balance, June 30, 2013	$	2,056,554
Assets available to pay claims at June 30, 2013	$	3,362,768

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 2012-13 was 11.417%. 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
2012-13	$ 1,782,987	100%
2011-12	$ 1,737,862	100%
2010-11	$ 1,657,723	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 2012-13 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
2012-13	$ 4,129,900	100%
2011-12	$ 4,238,850	100%
2010-11	$ 3,975,190	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 $2.1 million to STRS (4.267% of salaries subject to STRS in 2012-13).

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 2012-13, the District contributed $1,291,551.

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	193,225
Adjustment to ARC	(239,420)
Annual OPEB cost	2,195,042
Contributions made:	
Implicit rate subsidy	(241,407)
Contributions for pay-as-you-go costs	(1,050,144)
Total contributions made	(1,291,551)
Increase in net OPEB obligation	903,491
Net OPEB obligation - July 1, 2012	3,864,499
Net OPEB obligation - June 30, 2013	$ 4,767,990

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	$ 2,160,596	46%	$ 2,909,310
2012	$ 2,202,009	46%	$ 3,864,499
2013	$ 2,195,042	48%	$ 4,767,990

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 – SUBSEQUENT EVENT

On August 8, 2013, the Fullerton School District Financing Authority issued $16,475,000 in special tax revenue refunding bonds. The bonds were issued to refund two outstanding bonds issued by the Community Facilities Districts formed by Fullerton School District. The bonds carry stated interest rates ranging between 2.00 - 5.25% and fully mature in September 2031.

NOTE 14 – FUTURE GASB PRONOUNCEMENTS

The following statements issued by the Governmental Accounting Standards Board (GASB) will become effective in future years and are expected to have a significant impact on the District's financial reporting:

A. Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

This Statement will become effective in 2013-14.

B. Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NOTE 14 – FUTURE GASB PRONOUNCEMENTS (continued)

B. Statement No. 68 (continued)

Cost-Sharing Employers
In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

This Statement will become effective in 2014-15.

Required Supplementary Information

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FULLERTON SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual *	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
Revenue Limit Sources	$ 67,656,704	$ 68,244,856	$ 68,302,111	$ 57,255
Federal	5,351,995	6,452,450	5,986,374	(466,076)
Other State	16,773,205	18,009,621	18,213,090	203,469
Other Local	8,248,628	9,532,782	9,441,103	(91,679)
Total Revenues	98,030,532	102,239,709	101,942,678	(297,031)
Expenditures				
Current:				
Certificated Salaries	50,381,418	50,580,781	50,406,768	174,013
Classified Salaries	15,688,015	15,404,925	15,136,837	268,088
Employee Benefits	22,152,370	21,932,554	21,596,696	335,858
Books and Supplies	5,300,062	7,773,939	4,493,281	3,280,658
Services and Other Operating Expenditures	7,388,051	7,449,588	5,976,163	1,473,425
Intergovernmental	800,000	871,000	847,441	23,559
Debt service	527,630	527,630	527,630	-
Total Expenditures	102,237,546	104,540,417	98,984,816	5,555,601
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,207,014)	(2,300,708)	2,957,862	5,258,570
Other Financing Sources and Uses				
Interfund Transfers In	1,599,900	1,599,900	1,599,900	-
Interfund Transfers Out	(228,827)	(353,594)	(353,594)	-
Total Other Financing Sources and Uses	1,371,073	1,246,306	1,246,306	-
Net changes in Fund Balances	(2,835,941)	(1,054,402)	4,204,168	5,258,570
Fund Balances, July 1, 2012	18,616,877	22,503,929	22,503,929	-
Fund Balances, June 30, 2013	$ 15,780,936	$ 21,449,527	$ 26,708,097	$ 5,258,570

* 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

Schedule of Funding Progress

For the Fiscal Year Ended June 30, 2013

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, 2013, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

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

DISTRICT ADMINISTRATORS

Robert Pletka, Ed.D.,
Superintendent

Janet Morey,
Assistant Superintendent, Educational Services

Mark Douglas,
Assistant Superintendent, Personnel Services

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

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2013

	Second Period Report (Certificate No. 4896ECC0)	Annual Report (Certificate No. BCADDDDF)
Elementary:		
Kindergarten	1,438	1,442
Grades 1 through 3	4,403	4,401
Grades 4 through 6	4,253	4,254
Grades 7 and 8	3,017	3,004
Home and hospital	3	4
Special education	347	345
Extended year	16	16
Total Average Daily Attendance	13,477	13,466

FULLERTON SCHOOL DISTRICT

Schedule of Instructional Time

For the Fiscal Year Ended June 30, 2013

	1982-83 Minutes		1986-87 Minutes		2012-13	Number of Days	
Grade Level	Actual	Reduced*	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	36,296	176	Complied
Grade 1	40,480	39,356	50,400	49,000	51,374	176	Complied
Grade 2	40,480	39,356	50,400	49,000	51,575	176	Complied
Grade 3	40,480	39,356	50,400	49,000	52,105	176	Complied
Grade 4	42,240	41,067	54,000	52,500	53,703	176	Complied
Grade 5	42,240	41,067	54,000	52,500	53,703	176	Complied
Grade 6	42,240	41,067	54,000	52,500	53,703	176	Complied
Grade 7	60,896	59,204	54,000	52,500	60,982	176	Complied
Grade 8	60,896	59,204	54,000	52,500	60,982	176	Complied

* Amounts reduced as permitted by Education Code Section 46201.2(a).

FULLERTON SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2013

General Fund	(Budget) 2014 [2]	2013 [3]	2012	2011
Revenues and other financing sources	$ 105,996,350	$ 103,542,578	$ 105,761,126	$ 101,287,522
Expenditures	105,299,427	98,984,816	100,894,709	96,840,591
Other uses and transfers out	223,220	353,594	711,301	412,132
Total outgo	105,522,647	99,338,410	101,606,010	97,252,723
Change in fund balance (deficit)	473,703	4,204,168	4,155,116	4,034,799
Ending fund balance	$ 27,181,800	$ 26,708,097	$ 22,503,929	$ 18,348,813
Available reserves [1]	$ 20,794,766	$ 19,877,267	$ 16,457,298	$ 11,207,815
Available reserves as a percentage of total outgo	19.7%	20.0%	16.2%	11.5%
Total long-term debt [4]	$ 55,195,269	$ 58,404,941	$ 59,756,696	$ 61,339,319
Average daily attendance at P-2	13,460	13,477	13,358	13,287

The General Fund balance has increased by $8.4 million over the past two years. The fiscal year 2013-14 adopted budget projects an increase of $0.5 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 none of the past three years, and anticipates an operating surplus for the 2013-14 fiscal year. The total long-term debt has decreased approximately $2.9 million over the past two years.

Average daily attendance has increased by 190 over the past two years. The District anticipates a decrease of 17 ADA for the 2013-14 fiscal year.

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

[2] Revised Budget September 2013.

[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, 2013

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	$ 387,172	
National School Lunch Program	10.555	13391	2,813,451	
Summer Food Program	10.559	13004	21,066	
USDA - Donated Foods	10.555	N/A	268,500	
Subtotal Child Nutrition Cluster				$ 3,490,189
Fresh Fruit and Vegetable Program	10.582	14968		71,677
Total U.S. Department of Agriculture				3,561,866
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	1,803,884	
Title I, School Improvement Grant	84.010	14955	71,471	
Subtotal Title I, Part A Cluster				1,875,355
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		448,558
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334		9,678
Title III, Limited English Proficient (LEP) Student Program	84.365	14346		463,532
CREATE Art Grant	Unknown	N/A		292,032
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,211,594	
IDEA Preschool Grants, Part B, Sec 619 (Age 3-4-5)	84.173	13430	73,227	
IDEA Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	182,626	
Subtotal Special Education Cluster				2,467,447
Total U.S. Department of Education				5,556,602
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Child Development: Federal General and State Preschool	93.596	13609		71,012
Passed through California Dept. of Health Services:				
Medicaid Cluster				
Medi-Cal Administrative Activities	93.778	10060	47,677	
Medi-Cal Billing Option & Administrative Activities	93.778	10013	332,563	
Subtotal Medicaid Cluster				380,240
Total U.S. Department of Health & Human Services				451,252
Total Expenditures of Federal Awards				$ 9,569,720

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 Section 46201.2(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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise Fullerton School District's basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Fullerton School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Fullerton School District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro & Nigro, PC

December 5, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

Report on Compliance for Each Major Federal Program
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, 2013. 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.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Fullerton School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Fullerton School District's compliance.

Opinion on Each Major Federal Program
In our opinion, Fullerton School District complied, in all material respects, with the types of compliance 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, 2013.

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Report on Internal Control Over Compliance

Management of Fullerton School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fullerton School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

December 5, 2013

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

Report on Compliance for State Programs
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 2012-13,* published by the Education Audit Appeals Panel, for the year ended June 30, 2013. Fullerton School District's state programs are identified below.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Fullerton School District's State programs based on our audit of the types of compliance requirements referred to below. 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 2012-13*. 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 on compliance for each State program. However, our audit does not provide a legal determination of Fullerton School District's compliance.

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

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Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
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
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	1	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

Opinion on Compliance with State Programs
In our opinion, Fullerton School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2013.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

December 5, 2013

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
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:	Unmodified
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
84.010	Title I, Part A Basic Grants
84.027 & 84.173	Special Education (IDEA) Cluster

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

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 2012-13.

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 2012-13.

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 2012-13.

There were no audit findings in 2011-12.

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NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

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, 2013, 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, 2013, on the financial statements of Fullerton School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: In our testing of cash receipts at Nicolas Junior High, we found that two of the five deposits tested lacked sufficient supporting documentation. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

Recommendation: We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash.

Observation: In our test of cash disbursements, we noted all five of the disbursements selected in our sample were not approved by the District representative, the ASB advisor, and/or the student representative until after the expense had already been incurred.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a "best practice", approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

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PAYROLL

Observation: During our testing of payroll controls we noted that one terminated employee was not removed from the payroll system in a timely manner. The terminated individual was a teacher who resigned on July 17, 2012, but was not removed as an active employee from the payroll system until August 16, 2012. It appears that the lapse in time was due to an untimely submission of a status document from Human Resources to the Payroll Department. Human Resources did not submit the status document until August 15, 2012.

Recommendation: We recommend that Human Resources be reminded of the importance of timely notification of the Payroll Department for terminated employees. A lack of notification from Human Resources could cause the Payroll Department to erroneously pay former employees for work not performed. This could also cause errors in PERS and STRS reporting, which could result in the District owing fees and penalties.

EXPENDITURES

Observation: During our review of the purchasing process, we noted four instances in our sample of 41 where control procedures were not followed. Two of the exceptions were purchases which had invoices dated prior to the purchase order approval date, which indicates that the District incurred the expenditure prior to proper approval. One of the exceptions was an expenditure which did not have adequate supporting documentation on file. The final exception was an item purchased on a District credit card which was mailed to an employee's home address.

Recommendation: We recommend that the District emphasize the importance of having all purchases approved prior to incurring the expenditure. Additionally, the District should retain all supporting documentation for each purchase and require items purchased on District credit cards to be received at the school site or District Office. These controls will prevent the District from incurring expenditures for items which are inappropriate or unapproved.

CASH RECEIPTS

Observation: During our review of the cash receipting procedures at the District Office, we noted three instances where control procedures were not followed. In two of the instances we noted that the cash receipts did not reconcile to the supporting documentation provided. In addition, one of the items which we could not reconcile had receipts that were issued out of sequence. Without sequential receipts, it was not possible to verify that all cash collected was deposited intact. Last, we noted one instance where the cash collected was not deposited in a timely manner.

Recommendation: We recommend that all cash collections be supported by sequential receipts or other supporting documentation. Additionally, all cash received, whether collected by the school sites or District Office should be deposited into the bank within two weeks.

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

Nigro & Nigro, PC

December 5, 2013