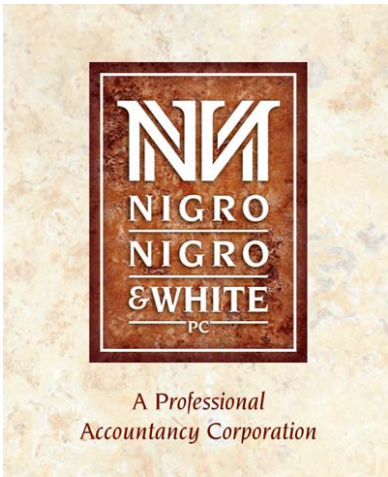


**FULLERTON
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2009**



**FULLERTON SCHOOL DISTRICT
 AUDIT REPORT
 For the Fiscal Year Ended June 30, 2009
 Table of Contents**

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Proprietary Fund Financial Statements:	
Statement of Net Assets.....	20
Statement of Revenues, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22
Fiduciary Fund Financial Statements:	
Statement of Net Assets.....	23
Notes to Financial Statements.....	25

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	58
Schedule of Funding Progress.....	59

**FULLERTON SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
Table of Contents (continued)**

SUPPLEMENTARY INFORMATION

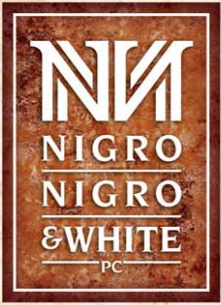
	<u>Page</u>
Local Educational Agency Organization Structure.....	60
Schedule of Average Daily Attendance.....	61
Schedule of Instructional Time.....	62
Schedule of Financial Trends and Analysis.....	63
Schedule of Expenditures of Federal Awards.....	64
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	65
Note to the Supplementary Information.....	66

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	67
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	69
Auditors' Report on State Compliance.....	71

FINDINGS AND QUESTIONED COSTS SECTION

Schedule of Audit Findings and Questioned Costs	
Summary of Auditors' Results.....	73
Current Year Audit Findings and Questioned Costs.....	74
Summary Schedule of Prior Audit Findings.....	77
Management Letter.....	78



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Fullerton School District
Fullerton, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fullerton School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fullerton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fullerton School District as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2009 on our consideration of the Fullerton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 58 and 59 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed 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, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Nigam Nigam & White, PC".

Murrieta, California
November 27, 2009

Management's Discussion and Analysis

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

This discussion and analysis of Fullerton School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net assets increased slightly from last year. Total net assets increased \$64,747 over the course of the year.
- Overall revenues were \$123.6 million, about \$0.1 million more than expenses.
- The total District-wide expenses were \$123.5 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required unrestricted funding was \$88.5 million.
- The District decreased its outstanding long-term debt \$1.0 million or 1.4%. This was primarily due to principal payments made.
- Second period (P2) average daily attendance (ADA) decreased by 41, or 0.3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

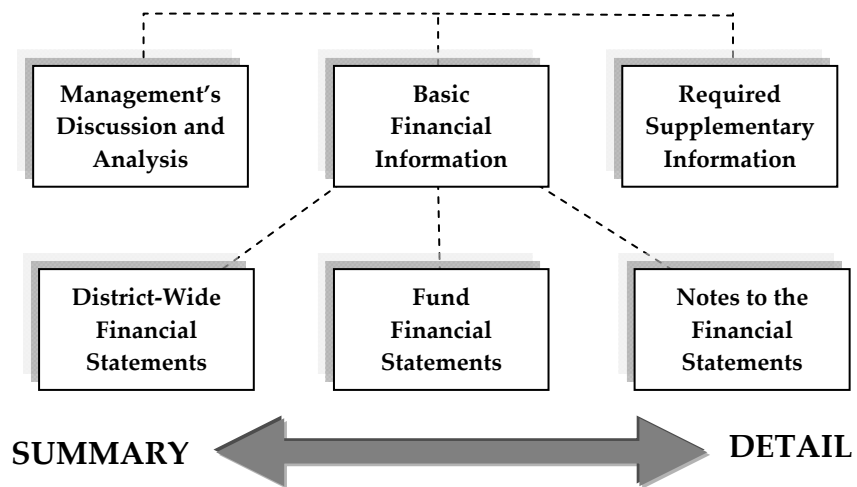
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- 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* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

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



FULLERTON SCHOOL DISTRICT
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

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

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

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

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

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

Fund Financial Statements

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

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

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

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 at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers' compensation claims and property and liability losses.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were slightly more on June 30, 2009, than they were the year before – increasing by 0.1% to \$77,460,356 (See Table A-1).

Table A-1

	Governmental Activities		Variance
	2009	2008*	Increase (Decrease)
Current assets	\$ 47,404,026	\$ 46,928,869	\$ 475,157
Capital assets	109,732,123	111,620,211	(1,888,088)
Total assets	157,136,149	158,549,080	(1,412,931)
Current liabilities	11,471,712	11,958,407	(486,695)
Long-term liabilities	68,204,081	69,195,064	(990,983)
Total liabilities	79,675,793	81,153,471	(1,477,678)
Net assets			
Invested in capital assets, net of related debt	54,177,608	49,236,267	4,941,341
Restricted	11,511,854	10,389,140	1,122,714
Unrestricted	11,770,894	17,770,202	(5,999,308)
Total net assets	\$ 77,460,356	\$ 77,395,609	\$ 64,747

* As retated

Changes in net assets, governmental activities. The District's total revenues were \$123.6 million (See Table A-2). This is a decrease of about \$0.3 million, due primarily to a decrease in State categorical funding.

The total cost of all programs and services was \$123.5 million. The purely administrative activities of the District accounted for just 6.8% of total costs. The District's expenses are predominantly related to educating and providing other services for students, 80.5%. The total costs increased by 0.1% primarily due to salary and benefits.

Table A-2

	Governmental Activities		Variance
	2009	2008	Increase (Decrease)
Total Revenues	\$ 123,545,815	\$ 123,233,269	\$ 312,546
Total Expenses	123,481,068	123,328,724	152,344
Increase (decrease) in net assets	\$ 64,747	\$ (95,455)	\$ 160,202

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$35.1 million, which is more than last year's ending fund balance of \$34.2 million. The District's General Fund had an increase in fund balance in 2008-09 of \$2.7 million.

General Fund Budgetary Highlights

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 \$1.8 million primarily to reflect federal and state budget actions
- Salaries and benefits costs – increased about \$1.2 million with increased salary and benefits costs
- Other non-capital expenses – increased \$2.9 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the General Fund anticipated expenditures would exceed revenues by about \$3.3 million, the actual results for the year show that revenues exceeded expenditures by roughly \$3.4 million. Actual revenues were approximately \$2.5 million more than anticipated, and expenditures were almost \$4.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2009 that will be carried over into the 2009-10 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2008-09 the District invested over \$2.9 million in new capital assets. (More detailed information about the District's capital assets is presented in Note 6 to the financial statements.)

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

	Governmental Activities		Variance
	2009	2008	Increase (Decrease)
Land	\$ 9,198,655	\$ 9,198,655	\$ -
Site improvements	191,811	188,795	3,016
Buildings	91,346,582	92,906,250	(1,559,668)
Equipment	8,995,075	8,862,825	132,250
Construction in progress	-	463,686	(463,686)
Total	<u>\$ 109,732,123</u>	<u>\$ 111,620,211</u>	<u>\$ (1,888,088)</u>

FULLERTON SCHOOL DISTRICT
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$68.2 million in general obligation bonds, special tax bonds, certificates of participation, loans, capital leases and employment benefits – a net decrease of 1.4% 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
	2009	2008	Increase (Decrease)
General obligation bonds	\$ 47,541,177	\$ 48,360,257	\$ (819,080)
Community facilities districts	8,731,092	8,912,220	(181,128)
Certificates of participation	7,120,000	7,335,000	(215,000)
Loans	1,154,344	1,520,602	(366,258)
Capital leases	1,572,510	2,035,957	(463,447)
Early retirement incentives	5,610	-	5,610
Compensated absences	1,249,073	1,031,028	218,045
Other postemployment benefits	830,275	-	830,275
Total	\$ 68,204,081	\$ 69,195,064	\$ (990,983)

FACTORS BEARING ON THE DISTRICT’S FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State’s worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state’s \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in “solutions” - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other “solutions”, including one-time savings from deferring the payment of state employees’ final paycheck for the 2009-10 fiscal year until July 1, 2010.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

FULLERTON SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Enrollment

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the Fullerton School District budget for the 2009-10 fiscal year.

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 the District's Business Office at (714) 447-7412.

Financial Section

FULLERTON SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	\$ 27,443,741
Investments	2,395,090
Accounts receivable	16,156,488
Stores inventory	362,555
Prepaid expenditures	1,046,152
Total current assets	<u>47,404,026</u>
Capital assets:	
Land	9,198,655
Improvement of sites	16,447,782
Buildings and improvements	123,022,067
Machinery and equipment	18,168,392
Less accumulated depreciation	(57,104,773)
Total capital assets	<u>109,732,123</u>
 Total assets	 <u>157,136,149</u>
 LIABILITIES	
Current liabilities:	
Accounts payable and current liabilities	9,789,290
Deferred revenues	1,682,422
Total current liabilities	<u>11,471,712</u>
Long-term liabilities:	
Portion due or payable within one year	2,931,034
Portion due or payable after one year	65,273,047
Total long-term liabilities	<u>68,204,081</u>
 Total liabilities	 <u>79,675,793</u>
 NET ASSETS	
Invested in capital assets, net of related debt	54,177,608
Restricted for:	
Capital projects	3,342,055
Debt service	2,236,022
Categorical programs	5,933,777
Unrestricted	11,770,894
 Total Net Assets	 <u>\$ 77,460,356</u>

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

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities				
Instructional Services:				
Instruction	\$ 75,396,268	\$ 274,324	\$ 18,917,142	\$ (56,204,802)
Instruction-Related Services:				
Supervision of instruction	3,615,734	27,686	2,316,903	(1,271,145)
Instructional library, media and technology	2,708,589	-	556,594	(2,151,995)
School site administration	7,640,778	437	5,750,378	(1,889,963)
Pupil Support Services:				
Home-to-school transportation	1,907,184	82,390	1,244,517	(580,277)
Food services	4,614,778	-	3,286,867	(1,327,911)
All other pupil services	3,518,582	27,747	1,276,649	(2,214,186)
General Administration Services:				
Other general administration	4,902,762	29	483,315	(4,419,418)
Plant services	10,375,891	647	144,721	(10,230,523)
Community services	14,660	-	-	(14,660)
Interest on long-term debt	2,960,125	-	-	(2,960,125)
Other outgo	1,073,077	18,124	624,565	(430,388)
Depreciation (unallocated)	4,752,640	-	-	(4,752,640)
Total Governmental Activities	\$ 123,481,068	\$ 431,384	\$ 34,601,651	(88,448,033)
General Revenues:				
Property taxes				36,338,897
Federal and state aid not restricted to specific purpose				46,647,082
Interest and investment earnings				598,717
Miscellaneous				4,928,084
Total general revenues				88,512,780
Change in net assets				64,747
Net assets - July 1, 2008, as originally stated				75,055,265
Adjustment for restatement				2,340,344
Net assets - July 1, 2008, as restated				77,395,609
Net assets - June 30, 2009				\$ 77,460,356

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

FULLERTON SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 6,886,860	\$ 17,432	\$ 17,108,400	\$ 24,012,692
Investments	-	2,395,090	-	2,395,090
Accounts receivable	15,175,100	21	810,466	15,985,587
Due from other funds	132,248	-	70,214	202,462
Inventories	247,152	-	115,403	362,555
Prepaid expenditures	1,023,203	-	22,949	1,046,152
Total Assets	\$ 23,464,563	\$ 2,412,543	\$ 18,127,432	\$ 44,004,538
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,106,301	\$ 127,872	\$ 771,762	\$ 7,005,935
Due to other funds	120,668	-	131,959	252,627
Deferred revenue	702,275	858,578	121,569	1,682,422
Total Liabilities	6,929,244	986,450	1,025,290	8,940,984
Fund Balances				
Reserved for:				
Inventories	247,152	-	115,403	362,555
Revolving cash	50,000	-	1,420	51,420
Debt service	-	-	2,236,022	2,236,022
Prepaid expenditures	1,023,203	-	22,949	1,046,152
Categorical programs	5,933,777	-	-	5,933,777
Unreserved, reported in:				
General fund	9,281,187	-	-	9,281,187
Capital project funds	-	1,426,093	5,812,641	7,238,734
Special revenue funds	-	-	8,913,707	8,913,707
Total Fund Balances	16,535,319	1,426,093	17,102,142	35,063,554
Total Liabilities and Fund Balances	\$ 23,464,563	\$ 2,412,543	\$ 18,127,432	\$ 44,004,538

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

FULLERTON SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds \$ 35,063,554

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The costs of the assets is \$166,836,896, and the accumulated depreciation is (\$57,104,773). 109,732,123

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: (1,039,725)

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. Long-term liabilities at year-end consists of:

General obligation bonds payable	\$ 47,541,177	
Special tax bonds payable	8,731,092	
Certificates of participation payable	7,120,000	
Energy loan payable	713,902	
Fullerton RDA loan payable	440,442	
Capital leases payable	1,572,510	
Early retirement incentive	5,610	
Compensated absences payable	1,249,073	
Other postemployment benefits payable	830,275	(68,204,081)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 1,908,485

Total net assets - governmental activities **\$ 77,460,356**

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

FULLERTON SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 31,825,403	\$ 952,346	\$ 3,561,148	\$ 36,338,897
Federal and state aid not restricted to specific purpose	46,185,844	-	461,238	46,647,082
Earnings on investments	336,744	-	261,973	598,717
Miscellaneous	1,842,060	-	3,086,024	4,928,084
Program Revenues:				
Charges for services	431,384	-	-	431,384
Operating grants and contributions	30,001,063	67,116	4,533,472	34,601,651
Total Revenues	110,622,498	1,019,462	11,903,855	123,545,815
EXPENDITURES				
Instructional Services:				
Instruction	73,156,577	-	1,903,738	75,060,315
Instruction-Related Services:				
Supervision of instruction	3,573,852	-	-	3,573,852
Instructional library, media and technology	2,632,481	-	-	2,632,481
School site administration	7,315,783	-	252,976	7,568,759
Pupil Support Services:				
Home-to-school transportation	1,868,342	-	-	1,868,342
Food services	-	-	4,681,026	4,681,026
All other pupil services	3,495,685	-	-	3,495,685
General Administration Services:				
Other general administration	4,504,227	-	111,109	4,615,336
Plant services	8,784,527	-	67,422	8,851,949
Facility acquisition and construction	48,097	355,970	3,827,668	4,231,735
Community services	6,832	-	-	6,832
Other outgo:				
Transfers between agencies	685,678	-	-	685,678
Debt service - principal	764,570	181,128	2,234,865	3,180,563
Debt service - interest	397,589	541,462	2,013,271	2,952,322
Total Expenditures	107,234,240	1,078,560	15,092,075	123,404,875
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,388,258	(59,098)	(3,188,220)	140,940
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	443,000	-	1,441,867	1,884,867
Interfund transfers out	(1,090,706)	-	(794,161)	(1,884,867)
Proceeds from capital leases	-	-	799,730	799,730
All other financing uses	-	(51,479)	-	(51,479)
Total Other Financing Sources and Uses	(647,706)	(51,479)	1,447,436	748,251
Net Change in Fund Balances	2,740,552	(110,577)	(1,740,784)	889,191
Fund Balances, July 1, 2008, as originally stated	13,844,767	1,536,670	16,502,582	31,884,019
Adjustment for restatement	(50,000)	-	2,340,344	2,290,344
Fund Balances, July 1, 2008, as adjusted	13,794,767	1,536,670	18,842,926	34,174,363
Fund Balances, June 30, 2009	\$ 16,535,319	\$ 1,426,093	\$ 17,102,142	\$ 35,063,554

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

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, 2009

Total net change in fund balances - governmental funds \$ 889,191

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlay: 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	2,864,552	
	Depreciation expense	<u>(4,752,640)</u>	(1,888,088)

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

3,180,563

Debt proceeds: 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:

(799,730)

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:

(347,181)

Amortization of debt issue premium or discount: 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:

11,261

In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was:

(830,275)

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:

48,072

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 earned exceeded amounts used by:

(223,655)

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.

24,589

Change in net assets of governmental activities \$ 64,747

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

FULLERTON SCHOOL DISTRICT
Statement of Net Assets – Proprietary Funds
June 30, 2009

	Governmental Activities
	Internal Service Fund
	Fund
ASSETS	
Cash	\$ 3,431,049
Accounts receivable	170,901
Due from other funds	51,516
	<hr/>
Total Assets	3,653,466
	<hr/>
LIABILITIES	
Accounts payable and accrued liabilities	116,934
Estimated liability for open claims and IBNR	1,626,696
Due to other funds	1,351
	<hr/>
Total liabilities	1,744,981
	<hr/>
NET ASSETS	
Unrestricted	1,908,485
	<hr/>
Total net assets	\$ 1,908,485
	<hr/> <hr/>

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

FULLERTON SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities
	Internal Service Fund
	Fund
OPERATING REVENUES	
Charges to other funds	\$ 832,572
Other fees and contracts	106,767
	<hr/>
Total operating revenues	939,339
	<hr/>
OPERATING EXPENSES	
Classified salaries	76,875
Employee benefits	25,525
Books and supplies	52,920
Services and other operating expenditures	826,810
	<hr/>
Total operating expenses	982,130
	<hr/>
Operating Income	(42,791)
NON-OPERATING REVENUES	
Interest income	67,380
	<hr/>
Change in Net Assets	24,589
	<hr/>
Net Assets, July 1, 2008, As originally stated	1,833,896
Adjustment for Restatement	50,000
	<hr/>
Net Assets, July 1, 2008, As restated	1,883,896
	<hr/>
Net Assets, June 30, 2009	\$ 1,908,485
	<hr/> <hr/>

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

FULLERTON SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from self-insurance premiums	\$ 698,741
Cash received from other sources	141,657
Cash paid for operating expenses	(986,894)
Net cash provided (used) by operating activities	<u>(146,496)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>70,503</u>
Net cash provided by investing activities	<u>70,503</u>
Net increase in cash	(75,993)
Cash, July 1, 2008	<u>3,507,042</u>
Cash, June 30, 2009	<u>\$ 3,431,049</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ (42,791)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(107,041)
Decrease in due from other funds	8,101
Increase in accounts payable and current liabilities	26,718
Decrease in due to other funds	(31,483)
Net cash provided (used) by operating activities	<u>\$ (146,496)</u>

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

FULLERTON SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2009

	Agency Funds
	Student
	Body Funds
Assets	
Cash	\$ 289,183
Total Assets	\$ 289,183
Liabilities	
Due to student groups	\$ 289,183
Total Liabilities	\$ 289,183

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

Fullerton School District Capital Facilities Corporation

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

Community Facilities Districts

On May 9, 2000 the District voted to establish Community Facilities District (CFD) No. 2000-1. On July 10, 2001 the District voted to establish CFD No. 2001-1. The purpose of the agreements is to

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Community Facilities Districts (continued)

provide for the issuance of bonds to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs to pay the principal and interest on the bonds.

The bonds and the related liabilities are described in more detail in Note 7.F.

Financial Presentation:

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Corporation and the CFDs within the Capital Projects Funds. Certificates of Participation issued by the corporation and Special Tax Bonds issued by the CFDs are included in the long-term liabilities. Fixed assets acquired or constructed by the component units are included in Government-wide Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

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

Manifestations of Oversight

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

Accountability of Fiscal Matters

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

Scope of Public Service

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements (continued)

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

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

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

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

D. Basis of Accounting

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions:

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

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

Deferred revenue:

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

Expenses/expenditures:

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

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Capital Projects Fund for Blended Component Units* 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.

Non-Major Governmental Funds:

- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains five non-major special revenue funds:
 1. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
 3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
 4. The *Special Reserve Fund for Other than Capital Outlay Projects* is used to account for restricted categorical and Board designated funds.
 5. The *Special Reserve Fund for Postemployment Benefits* is used to account for funds set aside for the payment of retiree health benefits.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

- *Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital projects funds:
 1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
 2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.
 4. The *Special Reserve Fund for Capital Outlay Projects* is used to account for current and future District facility related projects.
- *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one non-major debt service fund:
 1. The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Proprietary Funds:

- *Self-Insurance Funds* are used to account for services rendered on a cost reimbursement basis with the District. The Self-Insurance Fund is a consolidation of two subfunds as follows: 1) Workers' Compensation Fund is used to account for resources committed to the District's self-insurance program for workers' compensation; and 2) Property and Liability Insurance Fund is used to account for resources committed to the District's self-insurance program for property and liability insurance.

Fiduciary Funds:

- *Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains agency funds, one for each school that operates a student body fund. The amounts reported for student body funds represent the combined totals of all schools within the District.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

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

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

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

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

4. Deferred Revenue

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

5. Compensated Absences

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences (continued)

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable.

6. Long-Term Obligations

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

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

7. Fund Balance Reserves and Designations

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

8. Net Assets

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax

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

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

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

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

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

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

J. Self-Insurance Internal Service Fund

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Use of Estimates

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

L. New GASB Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 45 – In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement requires employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash:		
Cash in county treasury	\$ 26,387,340	\$ -
Cash on hand and in banks	881,401	289,183
Cash in revolving fund	<u>175,000</u>	<u>-</u>
Total cash	<u>\$ 27,443,741</u>	<u>\$ 289,183</u>
Investments	<u>\$ 2,395,090</u>	

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting financial statements at amounts based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its web site. The table below identifies some of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately \$26,433,544 and an amortized book value of \$26,387,340. The average weighted maturity for this pool is 266 days. In addition, the District maintains investments in U.S. Bank money market funds with an amortized cost of \$2,395,090. Fair value for the investments approximates amortized cost.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is rated Aa2 by Moody's Investors Service and AA- by Standards and Poor's rating services.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

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. However, 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. As of June 30, 2009, \$975,014 of the District’s bank balance of \$1,459,966 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.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Totals	Proprietary Fund
Federal Government:					
Categorical aid programs	\$ 1,151,643	\$ -	\$ 411,562	\$ 1,563,205	\$ -
State Government:					
Revenue limit	3,872,949	-	-	3,872,949	-
Lottery	851,923	-	-	851,923	-
Categorical aid programs	8,522,129	-	364,545	8,886,674	-
Local:					
Interest	18,220	21	14,395	32,636	3,651
Miscellaneous	758,236	-	19,964	778,200	167,250
Total	<u>\$ 15,175,100</u>	<u>\$ 21</u>	<u>\$ 810,466</u>	<u>\$ 15,985,587</u>	<u>\$ 170,901</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 – FUND BALANCES

The following amounts have been designated by the governing board for the following purposes:

General Fund	
Economic Uncertainties	\$ 1,808,231
Bob Fisler Donation Fund	595
Parks Jr. High Grant	3,500
FSD District Donations	70
Hermosa PTA Grant	1,488
Beckman Science Grant	62,203
Friday Night Live Grant	3,446
School Site Donations	218,465
Phelps Grant	59,508
Fine Arts Donations	95,265
School Technology Donations	54,445
LV Discretionary School Budget	5,000
Arts & Music Block Grant	75,000
PAR Fisler	1,760
HPSG Maple	28,795
API	8,417
IB Program	597
IMFRP	408,355
School Improvement Block Grant	227,396
Saturday School SSOAR	43,980
2009/10 Rev Limit to Fund QEIA	551,849
2009/10 Rev Limit Deficit	3,320,028
Categorical Year End Sweep/Tier III	2,302,792
Capital Project Fund for Blended Component Units	
Other Designations	1,426,094
Non-Major Governmental Funds	
Other Designations	14,726,347
	<hr/>
Total	\$ 25,433,626
	<hr/> <hr/>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS

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

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2009 are as follows:

	<u>Due From Other Funds</u>			Total
	General Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 70,214	\$ 50,454	\$ 120,668
Non-Major Governmental Funds	130,897	-	1,062	131,959
Proprietary Fund	1,351	-	-	1,351
Total	\$ 132,248	\$ 70,214	\$ 51,516	\$ 253,978

General Fund due from Child Development Fund for categorical programs	\$ 129,535
General Fund due from Capital Facilities Fund for salary and payroll costs	1,362
General Fund due from Self-Insurance Fund for salary and payroll costs	1,351
Child Development Fund due from General Fund for categorical programs	14,805
Building Fund due from General Fund for laptop revenues	55,409
Self-Insurance Fund due from General Fund for vehicle insurance	50,454
Self-Insurance Fund due from Child Development Fund for operating costs	999
Self-Insurance Fund due from Capital Facilities Fund for salary and payroll costs	63
Total	\$ 253,978

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

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

Interfund transfers for the 2008-09 fiscal year are as follows:

	<u>Interfund Transfers In</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 1,090,706	\$ 1,090,706
Non-Major Governmental Funds	443,000	351,161	794,161
Total	<u>\$ 443,000</u>	<u>\$ 1,441,867</u>	<u>\$ 1,884,867</u>
General Fund transfer to Special Reserve Fund for Postemployment Benefits for 1% of ARC costs			\$ 17,515
General Fund transfer to Building Fund for laptop revenues			967,532
General Fund transfer to Capital Facilities Fund for the annual loan amount for Maple School expansion			37,000
General Fund transfer to Deferred Maintenance Fund for state match			68,659
Child Development Fund transfer to General Fund to reimburse for indirect costs, utilities, and salaries			100,000
Building Fund transfer to General Fund for IB program support and textbooks			343,000
Special Reserve Fund for Capital Outlay Projects transfer to Building Fund for debt service payment			351,161
Total			<u>\$ 1,884,867</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 is shown below:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 9,198,655	\$ -	\$ -	\$ 9,198,655
Construction in progress	463,686	-	463,686	-
Total capital assets not being depreciated	<u>9,662,341</u>	<u>-</u>	<u>463,686</u>	<u>9,198,655</u>
Capital assets being depreciated:				
Improvement of sites	16,427,598	20,184	-	16,447,782
Buildings and improvements	120,574,827	2,447,240	-	123,022,067
Machinery and equipment	17,404,839	860,814	97,261	18,168,392
Total capital assets being depreciated	<u>154,407,264</u>	<u>3,328,238</u>	<u>97,261</u>	<u>157,638,241</u>
Accumulated depreciation for:				
Improvement of sites	(16,238,803)	(17,168)	-	(16,255,971)
Buildings and improvements	(27,668,577)	(4,006,908)	-	(31,675,485)
Machinery and equipment	(8,542,014)	(728,564)	(97,261)	(9,173,317)
Total accumulated depreciation	<u>(52,449,394)</u>	<u>(4,752,640)</u>	<u>(97,261)</u>	<u>(57,104,773)</u>
Total capital assets being depreciated, net	<u>101,957,870</u>	<u>(1,424,402)</u>	<u>-</u>	<u>100,533,468</u>
Governmental activity capital assets, net	<u>\$ 111,620,211</u>	<u>\$ (1,424,402)</u>	<u>\$ 463,686</u>	<u>\$ 109,732,123</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below.

	Balance, July 1, 2008	Additions	Deductions	Balance, June 30, 2009	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 46,545,458	\$ -	\$ 1,155,000	\$ 45,390,458	\$ 1,295,000
Accreted interest	1,623,357	347,181	-	1,970,538	-
Unamortized issuance premium	191,442	-	11,261	180,181	11,261
Total General Obligation Bonds	48,360,257	347,181	1,166,261	47,541,177	1,306,261
Special tax bonds:					
CFD 2000-1	725,718	-	16,345	709,373	16,345
CFD 2001-1	8,186,502	-	164,783	8,021,719	171,649
Total Special Tax Bonds	8,912,220	-	181,128	8,731,092	187,994
Certificates of Participation	7,335,000	-	215,000	7,120,000	220,000
Energy Loan	1,052,633	-	338,731	713,902	350,736
Fullerton RDA Loan	467,969	-	27,527	440,442	-
Capital Leases	2,035,957	799,730	1,263,177	1,572,510	860,433
Early Retirement Incentive	-	5,610	-	5,610	5,610
Compensated Absences	1,031,028	218,045	-	1,249,073	-
Other Postemployment Benefits	-	830,275	-	830,275	-
Totals	\$ 69,195,064	\$ 2,200,841	\$ 3,191,824	\$ 68,204,081	\$ 2,931,034

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.

Series A

On June 18, 2002, the District issued Series A, in the amount of \$40,000,458. The issue consisted of: a) Current Interest Bonds of \$23,415,000 with stated interest rates ranging from 3.25% to 5.375% and fully maturing on August 1, 2019, b) Term Bonds of \$12,040,000 with a stated interest rate of 5.0% due August 1, 2026 and c) Capital Appreciation Bonds of \$4,545,458 with yields to maturity ranging from 5.45% to 5.65% and fully maturing on August 1, 2023. At June 30, 2009, the outstanding balance on the bonds was \$36,470,458, in addition to \$1,970,538 of accreted interest on the capital appreciation bonds.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

Series B

On August 3, 2005 the District issued Series B of its General Obligation Bonds, 2002 Election, in the amount of \$9,699,542. The issue consists of \$6,959,542 Serial Bonds having interest rates ranging from 3.9% to 4.5% and maturing on August 1, 2022, and \$2,740,000 Term Bonds with a stated interest rate of 5.125% and maturing on August 1, 2026. At June 30, 2009 \$8,920,000 was outstanding.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 1,295,000	\$ 1,921,750	\$ 3,216,750
2010-11	1,440,000	1,868,181	3,308,181
2011-12	1,600,000	1,808,000	3,408,000
2012-13	1,765,000	1,740,700	3,505,700
2013-14	1,940,000	1,662,700	3,602,700
2014-19	12,940,000	6,690,950	19,630,950
2019-24	10,260,458	12,720,729	22,981,187
2024-27	14,150,000	1,103,300	15,253,300
	<hr/>	<hr/>	<hr/>
Total	\$ 45,390,458	\$ 29,516,310	\$ 74,906,768

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

On April 9, 1999, the District issued certificates of participation in the amount of \$8,890,000 through the Fullerton School District Capital Facilities Corporation, at interest rates ranging between 3.2% to 5.0%. The certificates were issued to make capital improvements to modernize certain school sites in the District, and to purchase additional classroom buildings. At June 30, 2009, the outstanding balance of the certificates was \$7,120,000.

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 220,000	\$ 349,947	\$ 569,947
2010-11	230,000	340,648	570,648
2011-12	240,000	330,858	570,858
2012-13	255,000	320,398	575,398
2013-14	265,000	309,133	574,133
2014-19	1,525,000	1,350,803	2,875,803
2019-24	1,930,000	957,018	2,887,018
2024-29	2,455,000	438,750	2,893,750
2029-30	-	13,500	13,500
Total	<u>\$ 7,120,000</u>	<u>\$ 4,411,055</u>	<u>\$ 11,531,055</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Energy Loan

The District entered into a lease agreement with Suntrust Leasing Corporation as of January 18, 2001 for \$3,000,000. The loan proceeds were paid to Independent Energy Consulting based on an agreement dated November 7, 2000 to perform a number of energy conservation projects at various District sites. The lease agreement was amended March 30, 2003 to obtain a lower interest rate from 4.898% to 3.54395% with a cost savings of \$84,060. The annual payment was reduced from \$386,598 to \$376,036. The annual interest rate is 3.54395%. Principal and interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 350,736	\$ 25,300	\$ 376,036
2010-11	363,166	12,870	376,036
Total	<u>\$ 713,902</u>	<u>\$ 38,170</u>	<u>\$ 752,072</u>

D. 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 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, 2009 balance follow:

Fiscal Year	Principal
2009-10	\$ -
2010-11	-
2011-12	31,460
2012-13	31,460
2013-14	31,460
2014-19	157,300
2019-24	157,300
2024-25	31,462
Total	<u>\$ 440,442</u>

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Capital Leases

The District leases equipment valued at \$5,183,918 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
2009-10	\$ 860,433	\$ 95,142	\$ 955,575
2010-11	450,645	44,473	495,118
2011-12	261,085	16,330	277,415
2012-13	347	-	347
Total	\$ 1,572,510	\$ 155,945	\$ 1,728,455

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

F. Special Tax Bonds

Community Facilities District No.2000-1

A Community Facilities District (CFD) was formed and established by the Fullerton School District on June 13, 2000 pursuant to the Mello-Roos Community Facilities Act of 1982. The CFD was formed to facilitate the financing of certain school sites and school facilities of the Fullerton School District and the Fullerton Joint Union High School District. The proceeds of the bonds were used by Fullerton School District to provide certain school site infrastructure, including permanent and interim K-8 schools, central support and administrative facilities, furniture, equipment, and technology to be owned by the Fullerton School District and the Fullerton Joint Union High School District. The District is party to a Joint Community Facilities Agreement, dated June 13, 2000 with the Fullerton Joint Union High School District and the Van Daele Development Corporation. The total of the Bonds used was \$1,195,000 with 65.38% or \$781,285 relating to the Fullerton School District. The Fullerton School District accounts for the activities in the CFD, however for the purposes of these financial statements, only the portion applicable to the Fullerton School District is blended as a component unit. Other information is disclosed below.

The bonds were issued on October 1, 2001 with interest rates ranging from 3.5% to 5.875% and maturing in 2020, 2025 or 2031 depending on the terms.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Special Tax Bonds (continued)

Community Facilities District No.2000-1 (continued)

The annual requirements to amortize the special tax bonds are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 16,345	\$ 39,821	\$ 56,166
2010-11	16,345	39,044	55,389
2011-12	19,614	38,171	57,785
2012-13	19,614	37,200	56,814
2013-14	19,614	36,205	55,819
2014-19	114,415	163,819	278,234
2019-24	150,374	126,500	276,874
2024-29	202,678	75,266	277,944
2029-32	150,374	13,444	163,818
Total	<u>\$ 709,373</u>	<u>\$ 569,470</u>	<u>\$ 1,278,843</u>

Community Facilities District No.2001-1

A Community Facilities District (CFD) was formed and established by the Fullerton School District on August 14, 2001 pursuant to the Mello-Roos Community Facilities Act of 1982. The CFD was formed to facilitate the financing of certain school sites and school facilities of the Fullerton School District and the Fullerton Joint Union High School District and certain park and recreation improvements of the City of Fullerton. A Joint Community Facilities Agreement was formed between three agencies. The proceeds of the bonds were used by Fullerton School District for the acquisition and partial construction of elementary school facilities in the Amerige Heights area. The total of the Bonds issued was \$19,450,000 with 45.77% or \$8,902,831 relating to the Fullerton School District, 16.55% or \$3,218,975 relating to the Fullerton Join High School District, and 37.677% or \$7,328,194 relating to the City of Fullerton. The Fullerton School District accounts for the activities of the CFD, however for the purposes of these financial statements, only the portion applicable to the Fullerton School District is blended as a component unit. Other information is disclosed below.

The bonds were issued on November 1, 2001 with interest rates ranging from 3.4% to 6.25% and maturing in 2020, 2023 or 2031 depending on the terms.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Special Tax Bonds (continued)

Community Facilities District No.2001-1 (continued)

The annual requirements to amortize the special tax bonds are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 171,649	\$ 492,090	\$ 663,739
2010-11	180,803	482,660	663,463
2011-12	189,958	472,554	662,512
2012-13	201,401	461,691	663,092
2013-14	212,844	449,986	662,830
2014-19	1,265,625	2,040,917	3,306,542
2019-24	1,705,044	1,586,507	3,291,551
2024-29	2,318,403	953,830	3,272,233
2029-32	1,775,992	174,497	1,950,489
Total	<u>\$ 8,021,719</u>	<u>\$ 7,114,732</u>	<u>\$ 15,136,451</u>

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.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 8 – JOINT POWERS AGREEMENTS (continued)

Condensed unaudited financial information is as follows:

	Southern California ReLiEF June 30, 2009
Total Assets	\$ 39,738,083
Total Liabilities	25,950,195
Net Assets	<u>\$ 13,787,888</u>
Total Revenues	\$ 25,296,148
Total Expenses	22,005,020
Operating Income	3,291,128
Non-Operating Income	1,961,011
Change in Net Assets	<u>\$ 5,252,139</u>

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 construction 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, 2009, 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.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 10 – RISK MANAGEMENT (continued)

Workers’ Compensation

For fiscal year 2009, 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, 2008 to June 30, 2009:

	<u>Workers’ Compensation</u>
Liability Balance, June 30, 2008	\$ 1,626,696
Claims and changes in estimates	826,810
Claims payments	<u>(826,810)</u>
Liability Balance, June 30, 2009	<u>\$ 1,626,696</u>
Assets available to pay claims at June 30, 2009	<u>\$ 1,908,485</u>

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).

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% 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 2008-09 was 9.428%. 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 1,593,917	100%
2007-08	\$ 1,628,784	100%
2006-07	\$ 1,559,004	100%

State Teachers' Retirement System (STRS)

Plan Description

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

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2008-09 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 4,504,331	100%
2007-08	\$ 4,491,947	100%
2006-07	\$ 4,352,927	100%

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 \$2.5 million to STRS (4.517% of salaries subject to STRS in 2008-09).

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*	78
Active plan members*	980
Total	<u>1,058</u>
Number of participating employers	One

*According to the July 1, 2007 actuarial valuation

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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 – group medical insurance coverage shall be provided for by the District for teachers who have at least ten (10) years of service in FSD and are retired from the Fullerton School District at age 55 or older and who retire under the State Teachers Retirement System (STRS), or the Public Employees Retirement System (PERS). This provision will apply only to those employees who remain fully retired as defined by the appropriate retirement system until the employee reaches age 65 or becomes Medicare eligible when this benefit will cease. All benefits will cease with the death of the employee. Eligible retired employees may select any medical plan, up to the cost of the PPO single plan. If a less expensive plan is selected, the retiree has the option of spending the difference on spousal coverage and paying remaining cost for two-party coverage on a monthly basis.

Classified personnel – group medical insurance coverage provided by the MEBA will be paid by the District for employees who are age 50 or older, have been employed by the District for at least ten (10) years, and who retire under PERS. This provision will apply only to those employees who remain fully retired as defined by the appropriate retirement system. Such benefit shall last until the employee becomes eligible for Medicare, when this benefit will cease. If the employee elects to have group medical coverage for his/her spouse, the District will contribute the entire cost for the two party HMO plans. To be eligible for such contribution, an employee shall have his/her spouse covered for at least twelve (12) months prior to retirement. Should the employee choose the two party PPO the employee will pay all costs over the highest cost two party HMO on a monthly basis. This applies to all employees as of January 1, 2003.

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 2008-09, the District contributed \$973,679.

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.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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:

	<u>Amount</u>
Annual required contribution (ARC)	\$ 1,803,954
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>1,803,954</u>
Contributions made:	
Contributions for pay-as-you-go costs	(724,609)
Amortization of implied rate subsidy	<u>(249,070)</u>
Total contributions made	<u>(973,679)</u>
Increase in net OPEB obligation	830,275
Net OPEB liability - July 1, 2008	-
Net OPEB liability - June 30, 2009	<u><u>\$ 830,275</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 are as follows:

Year Ended	Annual	Percentage	Net
<u>June 30,</u>	<u>Required</u>	<u>Contributed</u>	<u>OPEB</u>
2009	Contribution	54%	Obligation
	\$ 1,803,954		\$ 830,275

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2007, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$13.7 million and the unfunded actuarial accrued liability (UAAL) was \$13.7 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.

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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, 2007
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed Level Dollar Method
Remaining Amortization Period	29 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	7.75%
Long-term healthcare cost trend rates:	
Medical	8.00%
Dental	5.00%

NOTE 13 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in the General Fund were as follows:

<u>General Fund</u>	
Certificated Salaries	\$ 76,000
Capital Outlay	34,670
Direct Support/ Indirect Costs	39,928
Interfund Transfers Out	55,409

FULLERTON SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 14 – ADJUSTMENT FOR RESTATEMENT

The beginning balance of net assets at July 1, 2008 on the government-wide statement of activities and the beginning fund balance of the Special Reserve Fund for Postemployment Benefits on the Statement of Revenues, Expenditures and Change in Fund Balances have been restated by \$2,340,344 to account for the closure of the Retiree Benefits Trust Fund and the opening of the Special Reserve Fund for Postemployment Benefits.

The beginning balance of net assets on the Statement of Revenues, Expenditures, and Changes in Net Assets have been restated by \$50,000 to record the revolving cash account from the governmental fund.

NOTE 15 - SUBSEQUENT EVENTS

A. Capital Lease

The District has entered into a capital lease agreement dated August, 2009 with Academic Capital Group, Inc., for the purchase of laptop computers valued at \$453,357. The agreement calls for four annual lease payments to be made until August, 2012.

B. Accounting Treatment of Re-apportioned Categorical Funds

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

Required Supplementary Information

FULLERTON SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Revenue Limit Sources	\$ 73,527,518	\$ 68,798,567	\$ 71,570,251	\$ 2,771,684
Federal	6,440,141	11,135,043	11,223,276	88,233
Other State	17,711,623	18,381,090	17,765,838	(615,252)
Other Local	8,617,442	9,815,975	10,063,133	247,158
Total Revenues	106,296,724	108,130,675	110,622,498	2,491,823
Expenditures				
Certificated Salaries	54,230,597	54,902,923	54,978,923	(76,000)
Classified Salaries	17,184,182	17,518,568	17,161,775	356,793
Employee Benefits	20,124,587	20,334,394	20,065,329	269,065
Books and Supplies	5,263,995	8,161,280	5,704,482	2,456,798
Services and Other Operating Expenditures	8,861,191	8,753,423	7,535,965	1,217,458
Capital Outlay	41,535	16,369	51,039	(34,670)
Direct Support/Indirect Costs	(100,626)	(151,037)	(111,109)	(39,928)
Other Outgo	2,032,766	1,850,151	1,847,836	2,315
Total Expenditures	107,638,227	111,386,071	107,234,240	4,151,831
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,341,503)	(3,255,396)	3,388,258	6,643,654
Other Financing Sources and Uses				
Interfund Transfers In	43,000	443,000	443,000	-
Interfund Transfers Out	(1,142,956)	(1,035,297)	(1,090,706)	(55,409)
Total Other Financing Sources and Uses	(1,099,956)	(592,297)	(647,706)	(55,409)
Net changes in Fund Balances	(2,441,459)	(3,847,693)	2,740,552	6,588,245
Fund Balances, July 1, 2008	11,893,290	13,844,767	13,794,767	50,000
Fund Balances, June 30, 2009	\$ 9,451,831	\$ 9,997,074	\$ 16,535,319	\$ 6,638,245

FULLERTON SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2009

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%

Supplementary Information Section

FULLERTON SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2009

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.

<u>GOVERNING BOARD</u>		
<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Hilda Sugarman	President	November 30, 2012
Beverly Berryman	Vice-President	November 30, 2010
Ellen Ballard	Clerk	November 30, 2010
Lynn Thornley	Member	November 30, 2012
Minard Duncan	Member	November 30, 2010

DISTRICT ADMINISTRATORS

Mitch Hovey, Ed. D.,
Superintendent

Janet Morey,
Associate Superintendent, Educational Services

Mark Douglas,
Assistant Superintendent, Personnel Services

Gary Cardinale, Ed.D.,
Assistant Superintendent, Business Services

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	1,266	1,270
Grades 1 through 3	4,135	4,133
Grades 4 through 6	4,261	4,255
Grades 7 and 8	3,093	3,082
Home and hospital	3	3
Special education	333	335
Extended year	<u>32</u>	<u>32</u>
Total Average Daily Attendance	<u><u>13,123</u></u>	<u><u>13,110</u></u>
	<u>Hours of Attendance</u>	
<u>Supplemental Instruction Hours</u>		
Elementary	256,018	

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2008-09 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	37,055	180	Complied
Grade 1	40,480	50,400	52,544	180	Complied
Grade 2	40,480	50,400	52,544	180	Complied
Grade 3	40,480	50,400	52,544	180	Complied
Grade 4	42,240	54,000	54,926	180	Complied
Grade 5	42,240	54,000	54,926	180	Complied
Grade 6	42,240	54,000	54,926	180	Complied
Grade 7	60,896	54,000	61,710	180	Complied
Grade 8	60,896	54,000	61,710	180	Complied

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010 ²	2009	2008	2007
Revenues and other financing sources	\$ 98,260,179	\$ 111,065,498	\$ 110,731,860	\$ 113,624,434
Expenditures	100,956,546	107,234,240	108,846,200	105,640,713
Other uses and transfers out	495,977	1,090,706	1,642,644	6,102,379
Total outgo	101,452,523	108,324,946	110,488,844	111,743,092
Change in fund balance (deficit)	(3,192,344)	2,740,552	243,016	1,881,342
Ending fund balance	\$ 13,392,975	\$ 16,535,319	\$ 13,844,767	\$ 13,601,751
Available reserves ¹	\$ 1,370,280	\$ 1,808,231	\$ 7,874,380	\$ 10,155,953
Available reserves as a percentage of total outgo	1.4%	1.7%	7.1%	9.1%
Total long-term debt	\$ 65,273,047	\$ 68,204,081	\$ 69,195,064	\$ 71,656,896
Average daily attendance at P-2	13,009	13,123	13,164	13,166

The General Fund balance has increased by \$2.9 million over the past two years. The fiscal year 2009-10 adopted budget projects a decrease of \$3.2 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). However, ABX4 2 approved by the Legislature and signed by the Governor on July 28, 2009, provides for flexibility in permitting the reserve level to be one-third of the percentage in 2009-10, or 1%. The District must make progress in 2010-11 towards returning to the original percentage.

The District has not incurred operating deficits in any of the past three years, but anticipates an operating deficit during the 2009-10 fiscal year. The total long-term debt has decreased approximately \$3.4 million over the past two years.

Average daily attendance has decreased by 43 over the past two years. A decrease of 114 ADA is anticipated during the 2009-10 fiscal year.

¹ Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainties in the General Fund and the Special Reserve Fund for Other than Capital Outlay Projects.

² Revised Budget September 2009.

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Basic School Breakfast Program	10.553	13390	\$ 6,239
Especially Needed Breakfast Program	10.553	13526	260,599
National School Lunch Program	10.555	13391	2,345,539
Summer Food Program	10.559	13004	110,982
After School Snack Program	10.558	13529	83,930
USDA Commodities (non-cash assistance)	10.558	13389	270,079
Total U.S. Department of Agriculture			3,077,368
U.S. Department of Education:			
Readiness and Emergency Management	84.184E	N/A	106,891
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Low Income and Neglected	84.010	13797	1,794,400
Title II, Part A, Teacher Quality	84.367	14341	516,053
Title II, Part D, Education Technology (Formula Grants)	84.318	14334	28,848
Title II, Part D, Education Technology (Competitive Grants)	84.318	14368	228,983
Title II, Part B, CA Math and Science Partnerships	84.366	14512	519,069
Title III, Immigrant Education	84.365	14346	142,267
Title III, Limited English Proficiency	84.365	10084	427,652
Title IV, Part A, Drug Free Schools	84.186	14347	54,123
Title V, Part A, Innovative Education Strategies	84.298	14354	1,842
21st Century Community Learning Centers	84.287	14349	176,854
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement, Part B	84.027	13379	2,118,060
Preschool Grant, Part B	84.027A	13615	259,926
Subtotal Special Education Cluster			2,377,986
Total U.S. Department of Education			6,374,968
U.S. Department of Health & Human Services:			
Passed through California Dept of Education:			
Child Development Instructional Materials	93.575	00326	3,506
Passed through California Dept of Health Services:			
Medi-Cal Administrative Activities	N/A	10060	216,920
Total U.S. Department of Health & Human Services			220,426
Total Expenditures of Federal Awards			\$ 9,672,762

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited
Financial Statements
For the Fiscal Year Ended June 30, 2009

	<u>Long-Term Liabilities</u>
June 30, 2009, annual financial and budget report (SACS) total liabilities	\$ 74,878,135
Adjustments and reclassifications:	
Increasing (decreasing) the total liabilities:	
General obligation bond debt underreported	2,150,719
Special tax bonds overreported	(10,306,614)
Capital lease obligation underreported	442,179
Compensated absences underreported	203,777
Early retirement incentive underreported	5,610
Other postemployment benefits underreported	<u>830,275</u>
Net adjustments and reclassifications	<u>(6,674,054)</u>
June 30, 2009, audited financial statement total liabilities	<u><u>\$ 68,204,081</u></u>

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2009

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 required by Education Code section 46201.

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

Other Independent Auditors' Reports



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE

PH: 951.698.8783

FAX: 951.699.1064

25090 Jefferson Avenue

Murrieta, CA 92562

SAN DIEGO OFFICE

PH: 619.270.8222

FAX: 619.260.9085

2727 Camino Del Rio S.

Suite 219

San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE

www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Fullerton School District
Fullerton, California

**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**

We have audited the financial statements of Fullerton School District as of and for the year ended June 30, 2009, and have issued our report thereon dated November 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

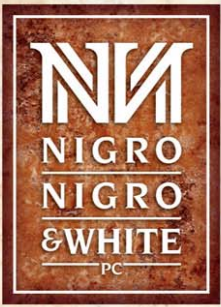
As part of obtaining reasonable assurance about whether Fullerton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

We noted certain matters that we reported to management of Fullerton School District in a separate letter dated November 27, 2009.

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

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

Murrieta, California
November 27, 2009



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE

PH: 951.698.8783

FAX: 951.699.1064

25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE

PH: 619.270.8222

FAX: 619.260.9085

2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE

www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Fullerton School District
Fullerton, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Fullerton School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fullerton School District's management. Our responsibility is to express an opinion on Fullerton School District's compliance based on our audit.

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

In our opinion, Fullerton School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

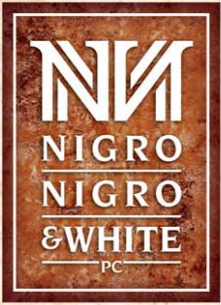
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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



Murrieta, California
November 27, 2009



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

- MEMBERS OF
- American Institute of CPAs
 - California Society of CPAs
 - California Association of School Business Officials
 - Community Associations Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Fullerton School District
Fullerton, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Fullerton School District as of and for the year ended June 30, 2009, and have issued our report thereon dated November 27, 2009. Our audit was made in accordance with auditing standards generally accepted; 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 2008-2009*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Adult Education	9	Not applicable ¹
Regional Occupational Centers and Programs	6	Not applicable ¹
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Not applicable ¹

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 ²
K-8 only	1	Not applicable ¹
Grades 9-12 only	1	Not applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable ¹
Class Size Reduction Program:		
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	4	Yes
Before School	5	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	3	Not applicable

¹ This program is not required to be audited per flexibility provisions in SBx3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

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

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



Murrieta, California
November 27, 2009

Findings and Questioned Costs Section

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A, Low Income and Neglected
84.367	Title II, Part A, Teacher Quality
84.184E	Readiness & Emergency Management

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

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

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
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 2008-09.

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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 2008-09.

FULLERTON SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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 2008-09.

FULLERTON SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2008-1: Cash Receipts</i>	The District must follow guidelines, as established in California Education Code 41001, to ensure all deposits and payments required by this section be made daily, unless the county superintendent of schools authorizes them to be made weekly or otherwise, but in no event less frequently than monthly. During our audit, the time line from the collections of child care and transportation fees to the deposit in bank exceeded three months.	30000	The District should make deposits in a timely manner as to reduce the risk of theft or fraud occurring. The employees should be reminded of the importance of making deposits in a timely manner.	Implemented.
<i>Finding 2008-2: Payroll</i>	The payroll department should not have the ability to change employee information that is the responsibility of the personnel department. The payroll department has access to alter employee information, including the pay rate, without the department of human resources' knowledge.	30000	The District is in the process of changing procedures and upgrading our system to have employee information electronically uploaded from the District's Personnel Department to the County's payroll system. The payroll department will no longer have the access or the need to change employee information to generate payroll.	Implemented.



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE

PH: 951.698.8783

FAX: 951.699.1064

25090 Jefferson Avenue

Murrieta, CA 92562

SAN DIEGO OFFICE

PH: 619.270.8222

FAX: 619.260.9085

2727 Camino Del Rio S.

Suite 219

San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE

www.nnwcpa.com

Licensed by the California
Board of Accountancy

To the Board of Directors of
Fullerton School District
Fullerton, California

Our audit of the financial statements of Fullerton School District (the District) as of and for the year ended June 30, 2009 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

As our consideration on internal control was for the limited purpose of expressing our opinion on the financial statement described in this letter, we would not necessarily identify all deficiencies in internal control that might be *significant deficiencies* or *material weaknesses* as those terms are defined by professional standards. Also, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by these controls.

As defined by professional standards, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned responsibilities, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

During the course of performing our procedures, we noted matters that are opportunities 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 November 27, 2009, on the financial statements of Fullerton School District.

Observation

The District ended the fiscal year with a reserve level of 1.7% of total expenditures, transfers out, and other outgo. Although recent legislation permits school districts to have a reserve level as low as 1% in 2009-10, school districts must make progress in 2010-11 towards recovering the reserve level back to 3% by 2011-12. The District's budget and Multi-Year Projections indicate that many additional cuts will be needed to bring the District's reserve level back to 3%. With declining enrollment combined with additional cuts coming from state funding, the District faces a daunting task.

Recommendation

The District must continue to closely monitor student enrollment and identify ways to improve student attendance as much as possible. The District has identified several rounds of cuts that can be made to the budget. The state budget situation must be closely monitored and cuts implemented as needed. The District should also work closely with the Orange County Department of Education to monitor the District's fiscal solvency.

Observation

Our testing over the Associated Student Body at Parks Jr. High School discovered there was no evidence of a budget being adopted for the 2008-09 fiscal year.

Recommendation

The Student Council should adopt a budget for the 2009-10 school year and document the approval in the minutes. A budget allows the student body to estimate at the beginning of the school year where it will be, in financial terms, at the end of the year.

Observation

Our testing of cash at the District Office indicated the revolving and clearing accounts were not being reconciled in a timely manner. In addition, the District does not appear to be properly reconciling to the imprest balance.

Recommendation

The revolving and clearing accounts should be reconciled as soon as the bank statements are received. The longer the bank reconciliation goes without being reconciled, the greater possibility that discrepancies of fund/account will not be recognized immediately. The reconciliation should include amounts from the book balance, the ending bank balance, and then to the board approved imprest account balance.

To the Board of Directors of
Fullerton School District
Page Three

Observation

Our test of expenditures at the District Office for the Cafeteria Fund indicated a disbursement processed without a purchase order.

Recommendation

The District should ensure a purchase order form is properly approved before the disbursement is made as stated in the board policy.

Observation

In our testing of warehouse inventory, the count exceptions report in the detailed inventory listing does not appear to be calculating the amount of overage or shortage accurately.

Recommendation

The District should judgmentally recalculate items reported in the inventory exceptions report to ensure the amount of the adjustment is being recorded accurately and that the computer system is calculating the sum of the adjustments correctly.

This communication is intended solely for the information and use of the Board of Directors and management of Fullerton School District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Nijm Nijm & White, PC".

Murrieta, California
November 27, 2009