



**ORANGE UNIFIED SCHOOL  
DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2012**

# ORANGE UNIFIED SCHOOL DISTRICT

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JUNE 30, 2012

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Orange Unified School District  
Orange, California

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

In our opinion, the financial statements referred to previously 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 Orange Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information and other postemployment information on pages 58 and 59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

VADZINSKY TRINE, Day + Co. CP

Rancho Cucamonga, California  
November 7, 2012



# ORANGE UNIFIED SCHOOL DISTRICT

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This section of Orange Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Orange Unified School District.

*Mission Statement: Orange Unified School District, being committed to planning for continual improvement, will provide a curriculum and learning environment of excellence and high expectations to provide each student with the opportunity and preparation to compete in the global economy.*

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2012

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether *its financial health is* improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, the District reports all of its services in the following category:

**Governmental Activities** - This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental Funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.



# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2012

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**Proprietary Funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, such as our funds for associated student body activities, and special tax assessments collected on behalf of the CFDs for the repayment of debt. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2012

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### FINANCIAL HIGHLIGHTS

#### THE DISTRICT AS A WHOLE

##### Net Assets

The District's net assets were \$224.9 million for the fiscal year ended June 30, 2012. Of this amount, \$69.5 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities	
	2012	2011
<b>Assets</b>		
Current and other assets	\$ 236,864,712	\$ 232,501,564
Capital assets	159,914,832	152,270,383
<b>Total Assets</b>	<b>396,779,544</b>	<b>384,771,947</b>
<b>Liabilities</b>		
Current liabilities	14,895,560	30,393,396
Long-term obligations	156,973,734	161,286,488
<b>Total Liabilities</b>	<b>171,869,294</b>	<b>191,679,884</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	122,783,592	98,543,428
Restricted	32,578,233	33,537,861
Unrestricted	69,548,425	61,010,774
<b>Total Net Assets</b>	<b>\$ 224,910,250</b>	<b>\$ 193,092,063</b>

The \$69.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2012

### Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2012	2011
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 5,039,273	\$ 8,272,985
Operating grants and contributions	62,360,373	57,642,969
Capital grants and contributions	-	12,162,597
General revenues:		
Federal and State aid not restricted	63,214,205	57,141,163
Property taxes	114,475,769	117,556,692
Other general revenues	8,699,175	12,990,709
<b>Total Revenues</b>	<b>253,788,795</b>	<b>265,767,115</b>
<b>Expenses</b>		
Instruction-related	163,862,537	168,087,399
Student support services	22,915,601	22,602,099
Administration	7,117,675	6,853,834
Maintenance and operations	18,540,237	18,745,163
Other	9,534,558	6,187,746
<b>Total Expenses</b>	<b>221,970,608</b>	<b>222,476,241</b>
<b>Change in Net Assets</b>	<b>\$ 31,818,187</b>	<b>\$ 43,290,874</b>

### Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was \$222.0 million. The amount that our local taxpayers ultimately financed for these activities through local property taxes was \$114.5 million. The District also collected \$5.0 million in charges for services from those that benefited from the programs. Other government agencies and organizations subsidized certain programs with grants and contributions (\$62.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$71.9 million in unrestricted State and Federal funds, and with other revenues, such as gifts, interest and general entitlements.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS

**JUNE 30, 2012**

In Table 3, we have presented the total cost and net cost of each of the District's largest functions: instruction-related, student support services, administration, maintenance and operations, and all other functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction-related	\$ 163,862,537	\$ 168,087,399	\$ 115,407,830	\$ 105,724,692
Student support services	22,915,601	22,602,099	8,558,567	9,892,724
Administration	7,117,675	6,853,834	6,089,221	5,440,464
Maintenance and operations	18,540,237	18,745,163	18,224,207	18,507,271
Other	9,534,558	6,187,746	6,291,137	4,832,539
<b>Total</b>	<b>\$ 221,970,608</b>	<b>\$ 222,476,241</b>	<b>\$ 154,570,962</b>	<b>\$ 144,397,690</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$125.0 million, which is an increase of \$13.8 million from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2011	Revenues	Expenditures	June 30, 2012
General	\$ 59,938,316	\$ 230,768,154	\$ 214,934,268	\$ 75,772,202
Special reserve fund for capital outlay projects	22,395,568	520,436	6,562,747	16,353,257
Charter school	-	3,120,601	-	3,120,601
Child development	901,545	5,125,505	5,206,446	820,604
Cafeteria	1,385,307	8,216,924	7,168,132	2,434,099
Deferred maintenance	3,609,083	1,979,726	422,631	5,166,178
Capital facilities	3,718,765	400,312	744,905	3,374,172
County school facilities	3,325,050	101,989	1,977,047	1,449,992
Capital project fund for blended component units	5,074,739	17,260	298,783	4,793,216
Debt service fund	10,868,622	4,630,766	3,796,902	11,702,486
<b>Total</b>	<b>\$ 111,216,995</b>	<b>\$ 254,881,673</b>	<b>\$ 241,111,861</b>	<b>\$ 124,986,807</b>

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2012

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### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the 2011-2012 budget was adopted in September 2012. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 58).

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2012, the District had \$159.9 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$7.6 million, or 5.0 percent, from last year (Table 5).

**Table 5**

	Governmental Activities	
	2012	2011
Land and construction in progress	\$ 71,723,942	\$ 92,859,765
Buildings and improvements	84,862,762	56,416,283
Furniture and equipment	3,328,128	2,994,335
<b>Total</b>	<b>\$ 159,914,832</b>	<b>\$ 152,270,383</b>

As of June 30, 2012, the District had invested \$159.9 million, net of depreciation, in broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the 2011-2012 fiscal year, the District continued the modernization of 19 schools namely: Fairhaven Elementary School, Jordan Elementary School, Lampson Elementary School, Cerro Villa Middle School, Portola Middle School, Santiago Charter School, Yorba Middle School, El Modena High School, Orange High School, Canyon High School, Villa Park Elementary, Sycamore Elementary, Esplanade Elementary, Olive Elementary, Crescent Elementary, Taft Elementary, Running Springs Elementary, Anaheim Hills Elementary, and Prospect Elementary.

A limited number of capital projects are planned for the 2012-2013 year. Planning for future potential capital initiatives is ongoing. The District plans to acquire a modest amount of additional capitalized supplies, equipment, and furnishings during the 2012-2013 year.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2012

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### Long-Term Obligations

At the end of this year, the District had \$157.0 million in long-term obligations versus \$161.3 million last year, a decrease of 2.7 percent. Those obligations consisted of:

**Table 6**

	Governmental Activities	
	2012	2011
Certificates of participation	\$ 48,555,000	\$ 49,350,000
Compensated absences (vacations)	3,768,487	3,268,804
Capital leases	9,722,713	10,360,254
Retirement health benefits funding bonds	89,865,000	91,365,000
Supplemental Early Retirement Plan (SERP)	2,058,534	4,117,068
Child care facilities revolving fund	-	12,362
Claims liability	3,004,000	2,813,000
<b>Total</b>	<b>\$ 156,973,734</b>	<b>\$ 161,286,488</b>

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total budgeted attendance of 26,900 (not including District charter schools, county special education and county community day schools) reflects an anticipated loss of 190 ADA. The District charter schools' ADA of 2090.31 reflects growth of 8.63 as compared to prior year. Per Education Code 42127(a)(1)(A) the Budget for 2011-2012 projects the same level of revenue per ADA as received in the 2010-11 fiscal year. A 3.27 percent cost of living adjustment (COLA) with a 22.272 percent deficit is also included.

The District provides Class Size Reduction program Option 1 to Grades K-2. Average staffing ratios for all grade levels are shown in the table below:

	<u>Staffing Ratio</u>
Grades K through two	30:1
Grades three through six	33:1
Grades seven through twelve	33:1

The new items specifically addressed in the budget are:

	<u>% Change</u>
Revenue limit cost of living adjustment	3.27%
Revenue limit deficit	22.272%
State and Federal cost of living adjustment	0.00%
Health and welfare increase	0.00%

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2012

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### FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's budget situation continues to reflect challenging economic conditions. The 2012 State Budget was balanced on reductions in the Proposition 98 minimum guarantee by re-designation of sales tax from state revenue to local revenue and optimistic state revenue projections. The State Budget enacted "Trigger Language" that automatically implements reductions to K-12 education if state revenue forecasts are not met. In addition, the Budget agreement permanently shifts the responsibility to provide AB3632 mental health services and out-of-home care residential services from county agencies to school district special education local plan areas (SELPA).

The State's budget challenges have adversely impacted the K-12 education budget. The final budget included ongoing deferrals and increased revenue assumptions. Cash management will need to be closely monitored for the upcoming years.

No further Federal stimulus funding is anticipated. The remainder of 2010-2011 Education Jobs Act funds was paid in 2011-2012. Education Jobs funds are to be expended prior to September 30, 2012. State categorical flexibility continues through 2014-2015 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any educational purpose. K-3 class size reduction penalties have been relaxed through 2013-2014. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2013-2014. School agencies maintain the flexibility to shorten the school year until 2014-2015.

#### Other Factors

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. The budget provides for 2012-2013 "trigger reduction" of \$2.739 billion to K-12 education should the tax initiative not pass on the November 2012 election. These reductions would become effective on January 1, 2013. The reduction to K-12 school district apportionment would represent approximately \$457/ADA for an average school district. All of these factors were considered in preparing the Orange Unified School District budget for the 2012-2013 fiscal year.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Orange Unified School District, 1401 North Handy Street, Orange, California, 92867, or e-mail at [joes@orangeusd.org](mailto:joes@orangeusd.org).

# ORANGE UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET ASSETS JUNE 30, 2012

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 97,820,583
Receivables	48,924,068
Prepaid expenses	1,244,664
Deferred cost on issuance	882,156
Stores inventories	260,537
Net OPEB assets	87,732,704
Capital assets	
Land and construction in process	71,723,942
Other capital assets	153,657,115
Less: Accumulated depreciation	(65,466,225)
Total Capital Assets	<u>159,914,832</u>
<b>Total Assets</b>	<u><u>396,779,544</u></u>
<b>LIABILITIES</b>	
Accounts payable	13,878,422
Interest payable	267,457
Deferred revenue	749,681
Current portion of long-term obligations	6,019,655
Noncurrent portion of long-term obligations	150,954,079
Total Long-Term Obligations	<u>156,973,734</u>
<b>Total Liabilities</b>	<u><u>171,869,294</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	122,783,592
Restricted for:	
Debt service	11,435,029
Capital projects	4,824,164
Educational programs	4,483,439
Other activities	11,835,601
Unrestricted	69,548,425
<b>Total Net Assets</b>	<u><u>\$ 224,910,250</u></u>

The accompanying notes are an integral part of these financial statements.



# ORANGE UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 136,311,441	\$ 1,235,954	\$ 39,344,910	\$ (95,730,577)
Instruction-related activities:				
Supervision of instruction	7,503,675	86,056	5,137,547	(2,280,072)
Instructional library, media, and technology	4,010,973	18,441	1,471,374	(2,521,158)
School site administration	16,036,448	257,033	903,392	(14,876,023)
Pupil services:				
Home-to-school transportation	6,620,321	247,263	2,196,856	(4,176,202)
Food services	7,011,584	1,820,979	6,208,121	1,017,516
All other pupil services	9,283,696	56,318	3,827,497	(5,399,881)
Administration:				
Data processing	1,241,495	-	32	(1,241,463)
All other administration	5,876,180	77,988	950,434	(4,847,758)
Plant services	18,540,237	14,412	301,618	(18,224,207)
Ancillary services	1,392,691	-	76,659	(1,316,032)
Community services	252,959	-	207,600	(45,359)
Interest on long-term obligations	3,754,065	-	-	(3,754,065)
Other outgo	4,134,843	1,224,829	1,734,333	(1,175,681)
<b>Total Governmental Activities</b>	<b>\$ 221,970,608</b>	<b>\$ 5,039,273</b>	<b>\$ 62,360,373</b>	<b>(154,570,962)</b>
General revenues and subventions:				
				107,449,312
				4,580,626
				2,445,831
				63,214,205
				345,917
				6,157,318
				2,195,940
		<b>Subtotal, General Revenues</b>		<b>186,389,149</b>
		<b>Change in Net Assets</b>		<b>31,818,187</b>
		Net Assets - Beginning		193,092,063
		Net Assets - Ending		<b>\$ 224,910,250</b>

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012**

	<b>General Fund</b>	<b>Special Reserve Fund For Capital Outlay Projects</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 40,893,383	\$ 18,211,584	\$ 29,990,267	\$ 89,095,234
Receivables	47,672,932	7,234	1,240,795	48,920,961
Due from other funds	218,824	-	4,036,394	4,255,218
Prepaid expenditures	1,244,664	-	-	1,244,664
Stores inventories	124,892	-	135,645	260,537
<b>Total Assets</b>	<b>\$ 90,154,695</b>	<b>\$ 18,218,818</b>	<b>\$ 35,403,101</b>	<b>\$ 143,776,614</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 9,839,079	\$ 1,772,831	\$ 2,172,454	\$ 13,784,364
Due to other funds	3,950,673	92,730	212,359	4,255,762
Deferred revenue	592,741	-	156,940	749,681
<b>Total Liabilities</b>	<b>14,382,493</b>	<b>1,865,561</b>	<b>2,541,753</b>	<b>18,789,807</b>
<b>Fund Balances:</b>				
Nonspendable	1,469,556	-	170,645	1,640,201
Restricted	4,483,439	16,353,257	27,524,525	48,361,221
Committed	-	-	5,166,178	5,166,178
Assigned	1,951,150	-	-	1,951,150
Unassigned	67,868,057	-	-	67,868,057
<b>Total Fund Balances</b>	<b>75,772,202</b>	<b>16,353,257</b>	<b>32,861,348</b>	<b>124,986,807</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 90,154,695</b>	<b>\$ 18,218,818</b>	<b>\$ 35,403,101</b>	<b>\$ 143,776,614</b>

The accompanying notes are an integral part of these financial statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 124,986,807</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 225,381,057
Accumulated depreciation is:	<u>(65,466,225)</u>
Net Capital Assets	159,914,832
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 other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.	87,732,704
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis as deferred costs on issuance.	882,156
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(267,457)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	5,630,942
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
Certificates of participation	48,555,000
Compensated absences (vacations)	3,768,487
Capital leases	9,722,713
Retirement health benefits funding bonds	89,865,000
Supplementary early retirement plan	2,058,534
Total Long-Term Obligations	<u>(153,969,734)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 224,910,250</u></u></b>

The accompanying notes are an integral part of these financial statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue limit sources	\$ 147,994,098	\$ -	\$ -	\$ 147,994,098
Federal sources	20,293,885	-	6,064,000	26,357,885
Other State sources	53,995,017	-	1,951,997	55,947,014
Other local sources	8,485,154	520,436	14,525,883	23,531,473
<b>Total Revenues</b>	<u>230,768,154</u>	<u>520,436</u>	<u>22,541,880</u>	<u>253,830,470</u>
<b>EXPENDITURES</b>				
Current				
Instruction	137,235,215	-	4,131,882	141,367,097
Instruction-related activities:				
Supervision of instruction	7,574,719	-	4,896	7,579,615
Instructional library, media and technology	4,057,898	-	2,919	4,060,817
School site administration	15,400,449	-	885,377	16,285,826
Pupil services:				
Home-to-school transportation	6,666,308	-	-	6,666,308
Food services	3,264	-	7,004,396	7,007,660
All other pupil services	9,431,783	-	2,623	9,434,406
Administration:				
Data processing	1,241,498	-	-	1,241,498
All other administration	5,637,601	-	259,952	5,897,553
Plant services	18,040,935	-	453,657	18,494,592
Facility acquisition and construction	59,343	6,476,465	3,017,728	9,553,536
Ancillary services	1,410,879	-	-	1,410,879
Community services	254,135	-	-	254,135
Other outgo	4,134,843	-	-	4,134,843
Debt service				
Principal	1,798,197	-	1,146,706	2,944,903
Interest and other	1,022,280	-	2,704,710	3,726,990
<b>Total Expenditures</b>	<u>213,969,347</u>	<u>6,476,465</u>	<u>19,614,846</u>	<u>240,060,658</u>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over Expenditures</b>	<u>16,798,807</u>	<u>(5,956,029)</u>	<u>2,927,034</u>	<u>13,769,812</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,051,203	1,051,203
Transfers out	(964,921)	(86,282)	-	(1,051,203)
<b>Net Financing Sources</b>				
<b>(Uses)</b>	<u>(964,921)</u>	<u>(86,282)</u>	<u>1,051,203</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	15,833,886	(6,042,311)	3,978,237	13,769,812
<b>Fund Balances - Beginning</b>	59,938,316	22,395,568	28,883,111	111,216,995
<b>Fund Balances - Ending</b>	<u>\$ 75,772,202</u>	<u>\$ 16,353,257</u>	<u>\$ 32,861,348</u>	<u>\$ 124,986,807</u>

The accompanying notes are an integral part of these financial statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

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**Total Net Change in Fund Balances - Governmental Funds** **\$ 13,769,812**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 10,071,771	
Depreciation expense	<u>(2,427,322)</u>	
Net Expense Adjustment		7,644,449

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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, there were special termination benefits paid in the amount of \$2,058,534. Vacation earned was more than the amounts paid by \$499,683. 1,558,851

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide statements as an expense. The actual amount of the contribution was more than the other postemployment benefit cost. 5,776,091

Costs associated with issuance are recognized as expenditures in the period as they are incurred in governmental funds. However, in the government-wide statements, costs associated with issuance of debt are amortized over the life of the debt. This year's amortization for cost of issuance is: (28,610)

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:

Certificates of participation		795,000
Retirement health benefits funding bonds		1,500,000
Capital lease obligations		637,541
Child care facilities revolving fund (portables)		12,362

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2012**

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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

\$ 1,535

An Internal Service Fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

151,156

**Change in Net Assets of Governmental Activities**

\$ 31,818,187

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 8,725,349
Receivables	3,107
Due from other funds	561
<b>Total Assets</b>	<b>8,729,017</b>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	94,058
Due to other funds	17
Current portion of claims liability	829,331
<b>Total Current Liabilities</b>	<b>923,406</b>
<b>Noncurrent Liabilities</b>	
Noncurrent portion of claims liability and assessment	2,174,669
 <b>NET ASSETS</b>	
Restricted	5,630,942
<b>Total Net Assets</b>	<b>\$ 5,630,942</b>

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	<u>\$ 2,117,335</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	106,441
Other operating cost	<u>1,900,609</u>
<b>Total Operating Expenses</b>	<u>2,007,050</u>
<b>Operating Income</b>	<u>110,285</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>40,871</u>
<b>Change in Net Assets</b>	151,156
<b>Total Net Assets - Beginning</b>	5,479,786
<b>Total Net Assets - Ending</b>	<u><u>\$ 5,630,942</u></u>

The accompanying notes are an integral part of these financial statements.



**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012**

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	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from interfund services provided	\$ 2,181,380
Cash payments to employees for services	(106,638)
Cash payments for insurance claims	<u>(1,664,437)</u>
Net Cash Provided by Operating Activities	<u>410,305</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>40,871</u>
Net Increase in Cash and Cash Equivalents	451,176
Cash and Cash Equivalents - Beginning	8,274,173
Cash and Cash Equivalents - Ending	<u>\$ 8,725,349</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 110,285
Changes in assets and liabilities:	
Receivables	4,370
Due from other fund	59,675
Accrued liabilities	45,172
Due to other fund	(197)
Claims liability	<u>191,000</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 410,305</u>

The accompanying notes are an integral part of these financial statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2012

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	<b>Retiree Benefits Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Deposits and investments	\$ 117,002,816	\$ 8,529,831
Receivables	6,724	-
<b>Total Assets</b>	<u>117,009,540</u>	<u>\$ 8,529,831</u>
<b>LIABILITIES</b>		
Accounts payable	7,501,180	\$ 18,648
Due to student groups	-	2,044,672
Due to bondholders	-	6,466,511
<b>Total Liabilities</b>	<u>7,501,180</u>	<u>\$ 8,529,831</u>
<b>NET ASSETS</b>		
Restricted	<u>109,508,360</u>	
<b>Total Net Assets</b>	<u>\$ 109,508,360</u>	

The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
JUNE 30, 2012**

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	<b>Retiree Benefits Trust</b>
<b>ADDITIONS</b>	
Private donations	\$ 400,495
District contributions	3,620,473
Interest	74,069
<b>Total Additions</b>	<u>4,095,037</u>
 <b>DEDUCTIONS</b>	
Other expenditures	<u>8,416,830</u>
 <b>Change in Net Assets</b>	 (4,321,793)
<b>Net Assets - Beginning</b>	<u>113,830,153</u>
<b>Net Assets - Ending</b>	<u><u>\$ 109,508,360</u></u>

The accompanying notes are an integral part of these financial statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Orange Unified School District (the District) was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

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, boards, and agencies that are not legally separate from the District. For Orange Unified School District, this includes general operations, food service, and student related activities of the District.

#### **Component Units**

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 may be 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 described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method 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.

The Orange Schools Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund and the Special Reserve Fund for Capital Outlay Projects. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. The Community Facilities Districts of the Orange Unified School District's (the CFDs) financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and as an Agency Fund. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation or the CFDs.

#### **Other Related Entities**

**Charter School** The District has approved a charter for Santiago Middle School, pursuant to *Education Code* Section 47605. The Charter School is direct-funded and is not considered a component unit of the District.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

**Special Reserve Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Charter Schools Fund** This fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund. The District operates El Rancho Charter Middle School that is accounted for in the Charter School Fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

---

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Capital Project Funds** The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**Capital Project Fund for Blended Component Units** The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

**Debt Service Fund** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

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

**Internal Service Fund** Internal Service Funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates a workers' compensation program that is accounted for in the Internal Service Fund.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District operates a Retiree Benefits Trust Fund. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes for payment of non-obligatory debt related to the CFDs.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and excludes fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the internal service fund and the restrictions on their net asset use.

**Fund Financial Statements** Fund Financial Statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred Revenue** Deferred Revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.



# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **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 equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

### **Investments**

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental and fiduciary funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$50,000. The District does not possess any infrastructure. 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, but are expensed as incurred.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 5 to 20 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund 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 straight-line method.

### Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the superintendent or designee may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### 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 improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$32,578,233 of restricted net assets, which is restricted by enabling legislation.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for administration of the workers' compensation, property and liability, and health and welfare programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the Statement of Activities.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1<sup>st</sup> of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

### Property Tax

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

### New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

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

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 97,820,583
Fiduciary funds	125,532,647
Total Deposits and Investments	<u>\$ 223,353,230</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 10,728,293
Cash in revolving	135,000
Investments	212,489,937
Total Deposits and Investments	<u>\$ 223,353,230</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.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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**Investment 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.

### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit and Bankers' Acceptances	1 year	None	None
Commercial Paper	270 days	None	None
Farm Credit System Bonds and Notes	N/A	None	None
Farmers Home Administration Certificates of Beneficial Ownership	N/A	None	None
Federal Credit Banks Bonds and Notes	N/A	None	None
Federal Home Loan Bank System Senior Debt Obligations	N/A	None	None
Federal Home Loan Mortgage Corporation Participation Certificates and Senior Debt Obligations	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal National Mortgage Association Senior Debt Obligations and Mortgaged-Back Securities	N/A	None	None
Federal Securities	N/A	None	None
Financing Corporation Debt Obligations	N/A	None	None
General Service Administration Participation Certificates	N/A	None	None
Government National Mortgage Association Guaranteed Mortgage-Backed Securities and Guaranteed Participation Certificates	N/A	None	None
Investment Agreements	N/A	None	None
Local Agency Bonds, and Notes	N/A	None	None
Money Market Funds	N/A	None	None
Registered State Bonds and Notes	N/A	None	None
Repurchase Agreements	N/A	None	None
Resolution Funding Corporation Obligations	N/A	None	None
Small Business Administration Guaranteed Participation Certifications	N/A	None	None
Student Loan Marketing Association Senior Debt Obligations	N/A	None	None
Unsecured Certificates of Deposits, Time Deposits, and Bankers' Acceptances	30 days	None	None
U.S. Department of Housing and Urban Development Notes, Bonds, Debentures	N/A	None	None
U.S. Maritime Administration Guaranteed Title XI Financing	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
Bonds	N/A	None	None



# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### 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 Orange County Investment Pool and short-term money market funds.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation and the actual rating as of year-end for each investment is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date/ Average Maturity in Days	Moody's Rating
Orange County Investment Pool	\$ 112,925,371	347	Aaa
Fidelity Institutional Governmental Money Market Fund	1,194,822	58	Aaa
Bayerische Hypo-Und Vereinsbank Commercial Paper	754,600	9/1/2014	P-1
<b>Mutual Funds</b>			
Blackrock Equity Dividend Institutional Shares	4,482,665	-	Not rated
Brandes Institutional Internal Equity Fund, Class I	3,699,459	-	Not rated
Cohen & Steers Realty Shares Institutional, Class I	3,459,039	-	Not rated
John Hancock Classic Value Fund	4,395,704	-	Not rated
Hartford Capital Appreciation Fund, Class Y	5,288,381	-	Not rated
Hartford MidCap Fund, Class Y	2,278,607	-	Not rated
Nuveen Tradewinds Value Opportunities Fund, Class I	2,621,673	-	Not rated
Nuveen Tradewinds Global All-Cap Fund, Class I	2,447,981	-	Not rated
Prudential Global Real Estate Fund, Class Z	1,088,609	-	Not rated
Royce Global Value Fund, Investment Class	4,125,825	-	Not rated
Royce Special Equity Fund, Investment Class	2,289,591	-	Not rated
Thornburg Investment Income Builder Fund, Class I	3,061,665	-	Not rated
Thornburg International Value Fund, Class I	2,846,915	-	Not rated
Delaware Diversified Income Fund, Institutional Class	9,701,172	-	Not rated
Legg Mason BW Global Opportunities Bond Fund, Class IS	3,788,307	-	Not rated
MetWest Total Return Bond Fund, Class I Shares	9,817,186	-	Not rated
Oppenheimer International Bond Fund, Class Y	4,508,150	-	Not rated
Prudential Total Return Bond Fund, Class Z	9,738,523	-	Not rated
Templeton Global Bond Fund, Advisor Class	8,311,163	-	Not rated
Western Asset Core Plus Bond Fund, Class I	9,801,126	-	Not rated
Total	\$ 212,626,534		

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### **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. Presented below is the actual rating as of the year-end for each investment type. The District's investment in the Orange County Investment Pool is rated Aaa by Moody's Investor Service. In addition, the Fidelity Institutional Governmental Money Market Fund is also rated Aaa by Moody's Investor Service. Bayerische Hypo-Und Vereinsbank Commercial Paper is rated P-1 by Moody's Investor Service. The other investment types have not been rated.

### **Custodial Credit Risk - Deposits**

This 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 agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's had a bank balance of \$8,761,182 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Federal Government						
Categorical aid	\$ 4,315,412	\$ -	\$ 983,442	\$ -	\$ 5,298,854	\$ -
State Government						
Apportionment	22,868,026	-	-	-	22,868,026	-
Categorical aid	2,688,198	-	197,638	-	2,885,836	-
Lottery	3,317,267	-	-	-	3,317,267	-
Special education	6,331,525	-	-	-	6,331,525	-
Local Government						
Interest	19,485	7,234	9,053	3,107	38,879	6,724
Due from retiree benefits trust	7,500,000	-	-	-	7,500,000	-
Other Local Sources	633,019	-	50,662	-	683,681	-
Total	<u>\$ 47,672,932</u>	<u>\$ 7,234</u>	<u>\$ 1,240,795</u>	<u>\$ 3,107</u>	<u>\$ 48,924,068</u>	<u>\$ 6,724</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 19,687,697	\$ -	\$ -	\$ 19,687,697
Construction in Progress	73,172,068	9,373,553	30,509,376	52,036,245
Total Capital Assets Not Being Depreciated	<u>92,859,765</u>	<u>9,373,553</u>	<u>30,509,376</u>	<u>71,723,942</u>
Capital Assets Being Depreciated:				
Land Improvements	10,952,382	-	-	10,952,382
Buildings and Improvements	102,822,561	30,509,376	-	133,331,937
Furniture and Equipment	9,096,350	698,218	421,772	9,372,796
Total Capital Assets Being Depreciated	<u>122,871,293</u>	<u>31,207,594</u>	<u>421,772</u>	<u>153,657,115</u>
Total Capital Assets	<u>215,731,058</u>	<u>40,581,147</u>	<u>30,931,148</u>	<u>225,381,057</u>
Less Accumulated Depreciation:				
Land Improvements	9,412,775	178,214	-	9,590,989
Buildings and Improvements	47,945,885	1,884,683	-	49,830,568
Furniture and Equipment	6,102,015	364,425	421,772	6,044,668
Total Accumulated Depreciation	<u>63,460,675</u>	<u>2,427,322</u>	<u>421,772</u>	<u>65,466,225</u>
Governmental Activities Capital Assets, Net	<u>\$ 152,270,383</u>	<u>\$ 38,153,825</u>	<u>\$ 30,509,376</u>	<u>\$ 159,914,832</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 1,483,708
Supervision of instruction	80,356
Instructional library, media, and technology	43,701
School administration	172,953
Pupil transportation	72,268
Food services	75,969
Other pupil services	99,470
Ancillary services	14,950
Community services	2,708
Other general administration	63,767
Data processing services	13,459
Plant maintenance and operation	304,013
Total Depreciation Expenses Governmental Activities	<u>\$ 2,427,322</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds and internal service funds:

Due To	Due From				Total
	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 6,448	\$ 212,359	\$ 17	\$ 218,824
Non-Major Governmental Funds	3,950,112	86,282	-	-	4,036,394
Internal Service Fund	561	-	-	-	561
Total	<u>\$ 3,950,673</u>	<u>\$ 92,730</u>	<u>\$ 212,359</u>	<u>\$ 17</u>	<u>\$ 4,255,779</u>

A balance of \$2,960,178 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from transfer of balances related to the El Rancho Charter Middle School's activities.

A balance of \$964,921 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from transfer of funds subjected to flexibility committed for the District's deferred maintenance program.

The balance of \$39,789 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect, transportation, and other operating costs.

The balance of \$157,590 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect, maintenance, and other operating costs.

All remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments are made between funds.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	Transfer From		
	General Fund	Special Reserve Fund For Capital Outlay Projects	Total
Non-Major Governmental Funds	\$ 964,921	\$ 86,282	\$ 1,051,203
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for flexible State funds committed for deferred maintenance projects.			\$ 964,921
The Special Reserve Fund For Capital Outlay Projects transferred to the County School Facilities Non-Major Governmental Fund for reimbursement of qualified capital outlay expenditures.			86,282
Total			<u>\$ 86,282</u>

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Salaries and benefits	\$ 6,858,966	\$ 3,699	\$ 687,908	\$ 8,319	\$ 7,558,892	\$ -
Supplies	307,428	402	46,219	-	354,049	-
Services	1,812,588	48,153	98,692	85,739	2,045,172	-
Due to other Districts	177,936	-	-	-	177,936	-
Due to Orange County Department of Education	161,880	-	-	-	161,880	-
Construction	-	1,720,577	1,338,753	-	3,059,330	-
Due to District	-	-	-	-	-	7,500,000
Other payables	520,281	-	882	-	521,163	19,828
Total	<u>\$ 9,839,079</u>	<u>\$ 1,772,831</u>	<u>\$ 2,172,454</u>	<u>\$ 94,058</u>	<u>\$ 13,878,422</u>	<u>\$ 7,519,828</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 569,346	\$ -	\$ 569,346
Other local	23,395	156,940	180,335
Total	<u>\$ 592,741</u>	<u>\$ 156,940</u>	<u>\$ 749,681</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

On July 1, 2010, the District issued \$10,000,000 of Tax and Revenue Anticipation Notes bearing interest at 0.677 percent. The notes were issued to supplement cash flows. Repayments of the notes began in January 2011 until 100 percent of principal and interest were paid to the Orange County Treasury where funds are held until the maturity date of August 9, 2011. As of June 30, 2012, the District has defeased the debt and as a result, the \$10,000,000 in tax anticipation notes were not included in these financial statements.

Change in the outstanding liability for the Tax and Revenue Anticipation Notes is as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2011	Additions	Payments	Outstanding June 30, 2012
7/1/2010	0.677%	8/9/2011	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>	<u>\$ -</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
2003 Certificates of Participation	\$ 49,350,000	\$ -	\$ 795,000	\$ 48,555,000	\$ 955,000
Compensated absences	3,268,804	499,683	-	3,768,487	-
Capital leases payable	10,360,254	-	637,541	9,722,713	576,790
Retirement health benefits funding bonds	91,365,000	-	1,500,000	89,865,000	1,600,000
Supplemental Early Retirement Plan (SERP)	4,117,068	-	2,058,534	2,058,534	2,058,534
Child care facilities revolving fund (portables)	12,362	-	12,362	-	-
Claims liability	2,813,000	1,020,331	829,331	3,004,000	829,331
	<u>\$ 161,286,488</u>	<u>\$ 1,520,014</u>	<u>\$ 5,832,768</u>	<u>\$ 156,973,734</u>	<u>\$ 6,019,655</u>

Payments on the Certificates of Participation are made by the Debt Service Fund. Capital leases are paid by the General Fund, Child Development Fund, Cafeteria Fund, and Debt Service Fund. Payments on the retirement health funding bonds are made by the General Fund. The General Fund makes payments for the Supplemental Early Retirement Plan (SERP). Payments on the Child Care Facilities Revolving Fund (portables) obligations are made by the Child Development Fund. The accrued vacation was paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.



**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**2003 Certificates of Participation**

In May 2003, the District, pursuant to a sublease agreement with Orange Schools Financing Corporation (the Corporation), issued \$53,000,000 Certificates of Participation. The certificates have a final maturity to occur on June 1, 2029, with interest rates ranging from 3.50 to 4.50 percent. A portion of the proceeds from the sale of the certificates were used to provide for the refunding of the District's 1994 Certificates of Participation that was issued in the amount of \$12,435,000. The remaining portion of proceeds was used to finance the construction and modernization of multiple school facilities throughout the District. As of June 30, 2012, the principal balance of \$48,555,000 remained outstanding.

The certificates mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 955,000	\$ 2,232,481	\$ 3,187,481
2014	1,125,000	2,196,669	3,321,669
2015	1,305,000	2,153,356	3,458,356
2016	1,495,000	2,101,156	3,596,156
2017	1,700,000	2,039,488	3,739,488
2018-2022	12,050,000	8,866,925	20,916,925
2023-2027	19,500,000	5,413,569	24,913,569
2028-2029	10,425,000	752,638	11,177,638
Total	<u>\$ 48,555,000</u>	<u>\$ 25,756,282</u>	<u>\$ 74,311,282</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$3,768,487.

**Capital Leases**

The District has entered into agreements to lease schools buses, vans, computers, and energy retrofit equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2011	<u>\$ 14,797,916</u>
Payments	(1,097,153)
Balance, June 30, 2012	<u>\$ 13,700,763</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 1,011,102
2014	774,445
2015	794,111
2016	810,661
2017	830,139
2018-2022	4,478,692
2023-2027	4,793,088
2028	208,525
Total	<u>13,700,763</u>
Less: Amount Representing Interest	(3,978,050)
Present Value of Minimum Lease Payments	<u>\$ 9,722,713</u>

**Retirement Health Benefits Funding Bonds**

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (The Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562 percent). Proceeds from the sale of bonds were used to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2012, the principal balance of \$89,865,000 remained outstanding, and unamortized cost of issuance was \$882,156.

The bonds mature through 2043 as follows:

June 30,	Principal	Interest	Total
2013	\$ 1,600,000	\$ 976,998	\$ 2,576,998
2014	1,600,000	959,578	2,559,578
2015	1,700,000	942,066	2,642,066
2016	2,000,000	923,284	2,923,284
2017	2,100,000	901,418	3,001,418
2018-2022	10,700,000	4,171,556	14,871,556
2023-2027	13,900,000	3,506,662	17,406,662
2028-2032	15,400,000	2,732,253	18,132,253
2033-2037	20,200,000	1,780,642	21,980,642
2038-2042	18,100,000	681,770	18,781,770
2043	2,565,000	25,600	2,590,600
Total	<u>\$ 89,865,000</u>	<u>\$ 17,601,827</u>	<u>\$ 107,466,827</u>

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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### Supplementary Early Retirement Plan (SERP)

During 2008, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a four-year period. The annuities, which were purchased for 159 employees who retired during the 2007-2008 school year, were purchased from the Public Agency Retirement Services.

As of June 30, 2012, the balance was \$2,058,534. Future payments for the SERP are as follows:

Year Ending June 30, <hr/> 2013	Future Payment <hr/>
	\$ 2,058,534

### Child Care Facilities Revolving Fund (Portables)

The District financed the purchase of Child Development portables through the California Department Education's Child Care Facilities Revolving Fund. The agreement with CDE includes a zero percent interest rate for portable classrooms. During the term of the repayment, the title to the facilities remains with the State of California. The title will pass to the District upon the repayment of all funds. As of June 30, 2012, the liability was paid in full.

### Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2012, amounted to \$3,004,000, using a discount factor of three percent.

### NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$16,935,000 as of June 30, 2012, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 100,000	\$ -	\$ 35,000	\$ 135,000
Stores inventories	124,892	-	135,645	260,537
Prepaid expenditures	1,244,664	-	-	1,244,664
Total Nonspendable	<u>1,469,556</u>	<u>-</u>	<u>170,645</u>	<u>1,640,201</u>
<b>Restricted</b>				
Legally restricted programs	4,483,439	-	6,204,659	10,688,098
Capital projects	-	16,353,257	9,617,380	25,970,637
Debt services	-	-	11,702,486	11,702,486
Total Restricted	<u>4,483,439</u>	<u>16,353,257</u>	<u>27,524,525</u>	<u>48,361,221</u>
<b>Committed</b>				
Deferred maintenance program	-	-	5,166,178	5,166,178
<b>Assigned</b>				
Non-resident tuition	56,127	-	-	56,127
School site balances	191,898	-	-	191,898
School site/department donations	705,802	-	-	705,802
Instructional materials	578,918	-	-	578,918
Credential support	9,456	-	-	9,456
Advanced placement fee reimbursement	2,044	-	-	2,044
Medi-Cal reimbursement	406,905	-	-	406,905
Total Assigned	<u>1,951,150</u>	<u>-</u>	<u>-</u>	<u>1,951,150</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	6,287,586	-	-	6,287,586
Remaining unassigned	61,580,471	-	-	61,580,471
Total Unassigned	<u>67,868,057</u>	<u>-</u>	<u>-</u>	<u>67,868,057</u>
Total	<u>\$ 75,772,202</u>	<u>\$ 16,353,257</u>	<u>\$ 32,861,348</u>	<u>\$ 124,986,807</u>

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Orange Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group. Membership of the Plan consists of 1,015 retirees and beneficiaries currently receiving benefits, 19 terminated plan members entitled to but not yet receiving benefits, and 1,452 active plan members.

#### Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, OUEA, CSEA and the unrepresented groups. For fiscal year 2011-12, the District contributed \$3,620,214 to the Plan, all of which was used for current premiums.

#### Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ 874,592
Interest on net OPEB asset	(5,081,310)
Adjustment to annual required contribution	<u>2,050,841</u>
Annual OPEB cost (expense)	(2,155,877)
Contributions made	<u>(3,620,214)</u>
Increase in net OPEB asset	5,776,091
Net OPEB asset beginning of year	<u>81,956,613</u>
Net OPEB asset, end of year	<u><u>\$ 87,732,704</u></u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**Trend Information**

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2010	\$ 3,016,017	\$ 2,104,444	70%	\$ 77,476,436
2011	(842,484)	3,637,693	532%	81,956,613
2012	(2,155,877)	3,620,214	268%	87,732,704

**Funded Status and Funding Progress**

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 1, 2011	\$ 106,455,005	\$ (52,725,881)	\$ (159,180,886)	301.9%	\$ 25,588,697	(622.1)%

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, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 designed 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.

# **ORANGE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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In the June 1, 2011, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 6.2 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial four percent to an ultimate rate of eleven percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2012, was 25 years.

### **NOTE 13 - 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 the fiscal year ending June 30, 2012, the District contracted with Southern California Regional Liability Excess Fund (SoCal ReLiEF) risk management pool for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Association for Excess Risk (SAFER) for amounts in excess of the District's liability limit up to \$25,000,000.

#### **Workers Compensation**

For the fiscal year of 2011-2012, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through Liberty Mutual Insurance Company, a commercial insurance carrier.

#### **Employee Medical Benefits**

Effective October 2010, the District has contracted with CalPERS to provide employee health benefits. The District offers dental benefits through Delta Dental (HMO) and California Schools Dental Coalition (PPO). The District also offers vision coverage and term life insurance through Vision Service Plan and Blue Cross, respectively.

#### **Claims Liabilities**

The District records an estimated liability for indemnity torts and other 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.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### Unpaid Claims Liabilities

The fund 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 represents the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2010	\$ 1,379,944
Claims and changes in estimates	2,254,784
Claims payments	<u>(821,728)</u>
Liability Balance, June 30, 2011	2,813,000
Claims and changes in estimates	1,020,331
Claims payments	<u>(829,331)</u>
Liability Balance, June 30, 2012	<u>\$ 3,004,000</u>
Assets available to pay claims at June 30, 2012	<u><u>\$ 8,729,017</u></u>

### NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

#### CalSTRS

##### Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.



# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### **Funding Policy**

Active plan members are required to contribute 8.0 percent 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$8,467,006, \$8,538,545, and \$8,826,428, respectively, and equal 100 percent of the required contributions for each year.

### **CalPERS**

#### **Plan Description**

The District contributes to the School Employer Pool under 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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 95811.

#### **Funding Policy**

Active plan members are required to contribute 7.0 percent 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 rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan member are established by State statute. In accordance with bargaining unit agreements, the District is required to make contributions on behalf of the employee at a rate of 7.0 percent of annual payroll. The District's contribution to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$5,625,654, \$5,529,165, and \$5,486,810 respectively, and equal 100 percent of the required contribution for each year.

#### **Public Agency Retirement System (PARS)**

The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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During the year, the District's required and actual contributions amounted to \$83,760, which was 1.3 percent of its current-year covered payroll. Employee contributions amounted to \$395,303.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,348,075 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

### Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Anaheim Hills Elementary	\$ 1,241,422	8/31/2013
Orange High School	95,744	08/31/12
Lampson Elementary	534,385	08/31/13
Canyon High School	211,113	08/31/12
El Modena High School	133,084	08/31/12
Villa Park High School	221,000	08/31/12
	<u>\$ 2,436,748</u>	

# **ORANGE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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### **NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS**

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) public entity risk pools. The District pays an annual premium for its property and liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. The audited financial statements are available from the entity. During the year ended June 30, 2012, the District made \$1,002,469, for the coverage noted above.

### **NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS**

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

### **NOTE 18 - SUBSEQUENT EVENTS**

#### **2012 Refunding Certificates of Participation**

On September 27, 2012, the Orange Unified School District issued 2012 Refunding Certificates of Participation in the amount of \$38,069,161. The certificates have a final maturity to occur on June 1, 2024, with an interest rate of 2.50 percent. Proceeds from the sale of the certificates were used to provide the current refunding of the residual balance on the District's 2003 Certificates of Participation. The refunding resulted in a cumulative cash flow saving of \$3,384,944 over the life of the new debt and an economic gain of \$9,437,500 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.50 percent.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# ORANGE UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	<b>REVENUES</b>			
Revenue limit sources	\$ 14,509,589	\$ 147,994,097	\$ 147,994,098	\$ 1
Federal sources	20,421,707	6,146,506	20,293,885	14,147,379
Other State sources	45,472,092	48,712,480	53,995,017	5,282,537
Other local sources	7,246,700	8,361,109	8,485,154	124,045
<b>Total Revenues <sup>1</sup></b>	<b>87,650,088</b>	<b>211,214,192</b>	<b>230,768,154</b>	<b>19,553,962</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	106,474,327	105,268,846	103,630,408	1,638,438
Classified salaries	33,248,804	33,698,864	33,150,145	548,719
Employee benefits	52,126,764	51,297,497	46,922,055	4,375,442
Books and supplies	14,171,504	12,158,151	6,512,033	5,646,118
Services and operating expenditures	20,584,309	22,478,261	16,977,060	5,501,201
Capital outlay	59,894	79,275	79,275	-
Other outgo	1,230,571	3,861,037	3,877,894	(16,857)
Debt service - principal	1,827,950	1,798,197	1,798,197	-
Debt service - interest	4,278,133	1,134,587	1,022,280	112,307
<b>Total Expenditures <sup>1</sup></b>	<b>234,002,256</b>	<b>231,774,715</b>	<b>213,969,347</b>	<b>17,805,368</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(146,352,168)</b>	<b>(20,560,523)</b>	<b>16,798,807</b>	<b>37,359,330</b>
<b>Other Financing Sources</b>				
Transfers out	(2,894,763)	(2,894,763)	(964,921)	1,929,842
<b>NET CHANGE IN FUND BALANCES</b>	<b>(149,246,931)</b>	<b>(23,455,286)</b>	<b>15,833,886</b>	<b>39,289,172</b>
<b>Fund Balances - Beginning</b>	<b>59,938,316</b>	<b>59,938,316</b>	<b>59,938,316</b>	<b>-</b>
<b>Fund Balances - Ending</b>	<b>\$ (89,308,615)</b>	<b>\$ 36,483,030</b>	<b>\$ 75,772,202</b>	<b>\$ 39,289,172</b>

<sup>1</sup> On behalf payments of \$5,348,075 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 FUNDING PROGRESS  
 FOR THE YEAR ENDED JUNE 30, 2012**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
October 1, 2007	\$ 2,171,175	\$ 167,391,481	\$ 165,220,306	1.3%	\$ 36,388,765	454.0%
December 1, 2009	97,237,770	(40,750,535)	(137,988,305)	338.6%	41,711,505	(330.8)%
June 1, 2011	106,455,005	(52,725,881)	(159,180,886)	301.9%	25,588,697	(622.1)%

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*SUPPLEMENTARY INFORMATION*

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**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Indian Education	84.060	[1]	\$ 67,556
Readiness and Emergency Management for Schools	84.184E	[1]	169,517
Teaching American History	84.215X	[1]	40,561
Passed through California Department of Education (CDE)			
Education Jobs Fund	84.410	25152	5,043,762
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies			
Title I, Part A - Low Income and Neglected	84.010	14329	4,958,858
ARRA Title I, Part A - Low Income and Neglected	84.389	15005	1
Action Performance Problems	84.010	14955	16,085
Subtotal Title I Grants to Local Educational Agencies			4,974,944
Improving Teacher Quality State Grants			
Title II, Part A - Improving Teacher Quality	84.367	14341	847,408
Title II, Part A - Administrator Training Program	84.367	14344	24,001
Subtotal Improving Teacher Quality State Grants			871,409
Education Technology State Grants			
Title II, Part D - Enhancing Education Through Technology Formula Grants	84.318	14334	28,449
Title II, Part D - Enhancing Education Through Technology Competitive Grants	84.318	14368	100,617
Subtotal Education Technology State Grants			129,066
Title I, Part G - Advanced Placement Test Fee			
Reimbursement Program	84.330	14831	32,483
Title III, Part A - Limited English Proficient Student Program	84.365	14346	959,444
Title X - McKinney-Vento Homeless Assistance Grant	84.196	14332	28,576
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	5,272,517
Local Assistance Private Schools ISP	84.027	10115	19,631
Preschool Grant, Part B	84.173	13430	135,040
Preschool Staff Development	84.173A	13431	2,272
Preschool Local Entitlement	84.027A	13682	260,137
Subtotal Special Education (IDEA) Cluster			5,689,597

[1] Direct-award, no PCA number.

See accompanying note to supplementary information.



**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION, Continued</b>			
Early Intervention Grants	84.181	23761	\$ 86,305
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education			
Career and Technical Education - Secondary Education	84.048	14894	171,399
Passed through Central County Regional Occupational Program			
Career and Technical Education - Adult Education	84.048	NA	9,626
Subtotal Career Technical Education			<u>181,025</u>
Total U.S. Department of Education			<u>18,274,245</u>
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services			
Child Development - California State Preschool Program	93.596	13609, 15136	203,640
Medi-Cal Assistance Program			
Medi-Cal Billing Option	93.778	10013	1,050,774
Medi-Cal Administrative Activities	93.778	10060	265,008
Subtotal Medi-Cal Assistance Program			<u>1,315,782</u>
Total U.S. Department of Health and Human Services			<u>1,519,422</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	4,225,603
Meal Supplements	10.555	13396	135,526
Basic School Breakfast Program	10.553	13390	18,531
Especially Needy Breakfast Program	10.553	13526	1,110,334
Commodities	10.555	13396	370,366
Subtotal Child Nutrition Cluster			<u>5,860,360</u>
Forest Reserve	10.665	10044	18,419
Total U.S. Department of Agriculture			<u>5,878,779</u>
Total Federal Programs			<u>\$ 25,672,446</u>

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

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### ORGANIZATION

The Orange Unified School District (the District) was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Timothy Surridge	President	2014
Alexia L Deligianni, Ed.D	Vice President	2012
Mark D. Wayland	Clerk	2012
Rick Ledesma	Member	2014
Kathryn A. Moffat	Member	2014
John Ortega	Member	2012
Diane Singer	Member	2014

### ADMINISTRATION

Michael C. Christensen, MBA	Superintendent
Joe Sorrera	Assistant Superintendent, Business Services/CBO
Ed Kisse	Assistant Superintendent, Human Resources
Gunn Marie Hansen, Ph.D	Assistant Superintendent, Educational Services

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

	Final Report	
	Revised Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	2,026	2,030
First through third	6,335	6,332
Fourth through sixth	6,319	6,309
Seventh and eighth	2,205	2,200
Home and hospital	14	15
Special education	704	710
Community day school	9	10
Total Elementary	<u>17,612</u>	<u>17,606</u>
<b>SECONDARY</b>		
Regular classes	8,548	8,488
Continuation education	328	321
Home and hospital	41	46
Special education	414	409
Community day school	35	33
Total Secondary	<u>9,366</u>	<u>9,297</u>
Total K-12	<u>26,978</u>	<u>26,903</u>
<b>CHARTER SCHOOL</b>		
Seventh and eighth (classroom based)	<u>1,149</u>	<u>1,148</u>
Total	<u>1,149</u>	<u>1,148</u>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced	1986-87	Reduced	2011-12	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	29,568	36,000	33,600	45,000	175	-	Complied
Grades 1 - 3	43,324	40,436	50,400	47,040				
Grade 1					49,275	175	-	Complied
Grade 2					49,275	175	-	Complied
Grade 3					49,275	175	-	Complied
Grades 4 - 6	49,774	46,456	54,000	50,400				
Grade 4					52,550	175	-	Complied
Grade 5					52,550	175	-	Complied
Grade 6					52,550	175	-	Complied
Grades 7 - 8	62,589	58,416	54,000	50,400				
Grade 7					61,096	175	-	Complied
Grade 8					61,096	175	-	Complied
Grades 9 - 12	62,300	58,147	64,800	60,480				
Grade 9					63,000	175	-	Complied
Grade 10					63,000	175	-	Complied
Grade 11					63,000	175	-	Complied
Grade 12					63,000	175	-	Complied

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

	(Budget)			
	2013 <sup>1</sup>	2012	2011	2010
<b>GENERAL FUND</b>				
Revenues	\$ 202,265,459	\$ 230,768,154	\$ 233,067,617	\$ 215,899,403
Other sources	-	-	422,688	294,882
Total Revenues and Other Sources	202,265,459	230,768,154	233,490,305	216,194,285
Expenditures	227,351,504	213,969,347	211,493,239	216,228,622
Other uses and transfers out	964,921	964,921	-	-
Total Expenditures and Other Uses	228,316,425	214,934,268	211,493,239	216,228,622
INCREASE (DECREASE) IN FUND BALANCES	\$ (26,050,966)	\$ 15,833,886	\$ 21,997,066	\$ (34,337)
ENDING FUND BALANCES	\$ 49,721,236	\$ 75,772,202	\$ 59,938,316	\$ 37,941,250
AVAILABLE RESERVES <sup>2</sup>	\$ 49,415,109	\$ 67,868,057	\$ 50,095,454	\$ 24,546,531
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	21.64%	32.38%	24.21%	11.40%
LONG-TERM OBLIGATIONS	N/A	\$ 156,973,734	\$ 161,286,488	\$ 164,469,092
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	26,784	26,978	27,079	26,895

The General Fund balance has increased by \$37,830,952 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$26,050,966 (34.4 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have decreased by \$7,495,358 over the past two years.

Average daily attendance has increased by 83 over the past two years. A decline of 194 ADA is anticipated during fiscal year 2012-2013.

<sup>1</sup> Budget 2013 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On behalf payments of \$5,348,075 and \$4,538,368 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012 and 2011.

<sup>4</sup> Excludes charter school ADA.

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2012**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Santiago Middle School (0066)	No
El Rancho Charter School (0445)	Yes

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2012**

	<b>Charter School Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Capital Project Fund for Blended Component Units</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>									
Deposits and investments	\$ 174,965	\$ 1,056,027	\$ 1,892,995	\$ 4,252,182	\$3,425,189	\$ 2,460,780	\$ 5,029,005	\$11,699,124	\$ 29,990,267
Receivables	-	130,724	1,068,774	34,873	1,265	617	1,180	3,362	1,240,795
Due from other funds	2,960,178	21,967	-	964,921	3,046	86,282	-	-	4,036,394
Stores inventories	-	-	135,645	-	-	-	-	-	135,645
<b>Total Assets</b>	<b>\$ 3,135,143</b>	<b>\$ 1,208,718</b>	<b>\$ 3,097,414</b>	<b>\$ 5,251,976</b>	<b>\$3,429,500</b>	<b>\$ 2,547,679</b>	<b>\$ 5,030,185</b>	<b>\$11,702,486</b>	<b>\$ 35,403,101</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ -	\$ 348,325	\$ 348,785	\$ 85,798	\$ 54,890	\$ 1,097,687	\$ 236,969	\$ -	\$ 2,172,454
Due to other funds	14,542	39,789	157,590	-	438	-	-	-	212,359
Deferred revenue	-	-	156,940	-	-	-	-	-	156,940
<b>Total Liabilities</b>	<b>14,542</b>	<b>388,114</b>	<b>663,315</b>	<b>85,798</b>	<b>55,328</b>	<b>1,097,687</b>	<b>236,969</b>	<b>-</b>	<b>2,541,753</b>
<b>Fund Balances:</b>									
Nonspendable	25,000	-	145,645	-	-	-	-	-	170,645
Restricted	3,095,601	820,604	2,288,454	-	3,374,172	1,449,992	4,793,216	11,702,486	27,524,525
Committed	-	-	-	5,166,178	-	-	-	-	5,166,178
<b>Total Fund Balances</b>	<b>3,120,601</b>	<b>820,604</b>	<b>2,434,099</b>	<b>5,166,178</b>	<b>3,374,172</b>	<b>1,449,992</b>	<b>4,793,216</b>	<b>11,702,486</b>	<b>32,861,348</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,135,143</b>	<b>\$ 1,208,718</b>	<b>\$ 3,097,414</b>	<b>\$ 5,251,976</b>	<b>\$3,429,500</b>	<b>\$ 2,547,679</b>	<b>\$ 5,030,185</b>	<b>\$11,702,486</b>	<b>\$ 35,403,101</b>

See accompanying note to supplementary information.



**ORANGE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012**

	Charter School Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>									
Federal sources	\$ -	\$ 203,640	\$ 5,860,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,064,000
Other State sources	-	522,544	467,893	961,560	-	-	-	-	1,951,997
Other local sources	3,120,601	4,399,321	1,888,671	53,245	400,312	15,707	17,260	4,630,766	14,525,883
<b>Total Revenues</b>	<b>3,120,601</b>	<b>5,125,505</b>	<b>8,216,924</b>	<b>1,014,805</b>	<b>400,312</b>	<b>15,707</b>	<b>17,260</b>	<b>4,630,766</b>	<b>22,541,880</b>
<b>EXPENDITURES</b>									
Current									
Instruction	-	4,131,882	-	-	-	-	-	-	4,131,882
Instruction-related activities:									
Supervision of instruction	-	4,896	-	-	-	-	-	-	4,896
Instructional library, media, and technology	-	2,919	-	-	-	-	-	-	2,919
School site administration	-	885,377	-	-	-	-	-	-	885,377
Pupil services:									
Food services	-	-	7,004,396	-	-	-	-	-	7,004,396
All other pupil services	-	2,623	-	-	-	-	-	-	2,623
Administration:									
All other administration	-	107,751	149,194	-	3,007	-	-	-	259,952
Plant services	-	31,026	-	422,631	-	-	-	-	453,657
Facility acquisition and construction	-	-	-	-	741,898	1,977,047	298,783	-	3,017,728
Debt service									
Principal	-	38,854	13,953	-	-	-	-	1,093,899	1,146,706
Interest and other	-	1,118	589	-	-	-	-	2,703,003	2,704,710
<b>Total Expenditures</b>	<b>-</b>	<b>5,206,446</b>	<b>7,168,132</b>	<b>422,631</b>	<b>744,905</b>	<b>1,977,047</b>	<b>298,783</b>	<b>3,796,902</b>	<b>19,614,846</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,120,601</b>	<b>(80,941)</b>	<b>1,048,792</b>	<b>592,174</b>	<b>(344,593)</b>	<b>(1,961,340)</b>	<b>(281,523)</b>	<b>833,864</b>	<b>2,927,034</b>
<b>Other Financing Sources (Uses)</b>									
Transfers in	-	-	-	964,921	-	86,282	-	-	1,051,203
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>964,921</b>	<b>-</b>	<b>86,282</b>	<b>-</b>	<b>-</b>	<b>1,051,203</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,120,601</b>	<b>(80,941)</b>	<b>1,048,792</b>	<b>1,557,095</b>	<b>(344,593)</b>	<b>(1,875,058)</b>	<b>(281,523)</b>	<b>833,864</b>	<b>3,978,237</b>
<b>Fund Balances - Beginning</b>	<b>-</b>	<b>901,545</b>	<b>1,385,307</b>	<b>3,609,083</b>	<b>3,718,765</b>	<b>3,325,050</b>	<b>5,074,739</b>	<b>10,868,622</b>	<b>28,883,111</b>
<b>Fund Balances - Ending</b>	<b>\$ 3,120,601</b>	<b>\$ 820,604</b>	<b>\$ 2,434,099</b>	<b>\$ 5,166,178</b>	<b>\$ 3,374,172</b>	<b>\$ 1,449,992</b>	<b>\$ 4,793,216</b>	<b>\$ 11,702,486</b>	<b>\$ 32,861,348</b>

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2012

	Actual Results for the Years					
	2011-2012		2010-2011		2009-2010	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal revenue	\$ 20,293,885	8.8	\$ 22,076,170	9.5	\$ 20,695,266	9.6
State and local revenue included in revenue limit	147,994,098	64.1	148,584,529	63.8	140,369,470	65.0
Other State revenue	53,995,017	23.4	54,786,117	23.5	47,400,693	22.0
Other local revenue	8,485,154	3.7	7,620,801	3.2	7,433,974	3.4
<b>Total Revenues</b>	<b>230,768,154</b>	<b>100.0</b>	<b>233,067,617</b>	<b>100.0</b>	<b>215,899,403</b>	<b>100.0</b>
<b>EXPENDITURES</b>						
<b>Salaries and Benefits</b>						
Certificated salaries	103,630,406	44.9	104,725,522	44.9	108,054,297	50.0
Classified salaries	33,150,144	14.4	32,671,416	14.0	34,539,682	16.0
Employee benefits	46,922,052	20.4	47,370,376	20.4	46,062,990	21.4
<b>Total Salaries and Benefits</b>	<b>183,702,602</b>	<b>79.7</b>	<b>184,767,314</b>	<b>79.3</b>	<b>188,656,969</b>	<b>87.4</b>
Books and supplies	6,512,033	2.8	6,203,808	2.7	6,550,521	3.1
Contracts and operating expenses	16,977,060	7.4	16,827,003	7.2	15,839,623	7.3
Capital outlay	79,276	0.0	33,040	0.0	269,144	0.1
Other outgo	6,698,376	2.9	3,662,074	1.6	4,912,365	2.3
<b>Total Expenditures</b>	<b>213,969,347</b>	<b>92.8</b>	<b>211,493,239</b>	<b>90.8</b>	<b>216,228,622</b>	<b>100.2</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>16,798,807</b>	<b>7.2</b>	<b>21,574,378</b>	<b>9.2</b>	<b>(329,219)</b>	<b>(0.2)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	0.0	422,688	0.2	294,882	0.2
Transfers out	(964,921)	(0.4)	-	0.0	-	0.0
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>15,833,886</b>	<b>6.8</b>	<b>21,997,066</b>	<b>9.4</b>	<b>(34,337)</b>	<b>0.0</b>
FUND BALANCE, BEGINNING	59,938,316		37,941,250		37,975,587	
FUND BALANCE, ENDING	<u>\$ 75,772,202</u>		<u>\$ 59,938,316</u>		<u>\$ 37,941,250</u>	

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION  
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

	Actual Results for the Years					
	2011-2012		2010-2011		2009-2010	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal	\$ 5,860,360	71.3	\$ 5,666,312	69.4	\$ 5,557,768	65.4
State meal program	467,893	5.7	434,671	5.3	437,904	5.1
Food sales	1,863,758	22.7	2,000,614	24.5	2,453,268	28.9
Other	24,913	0.3	62,656	0.8	47,856	0.6
Total Revenues	<u>8,216,924</u>	<u>100.0</u>	<u>8,164,253</u>	<u>100.0</u>	<u>8,496,796</u>	<u>100.0</u>
<b>EXPENDITURES</b>						
Salaries and employee benefits	3,527,555	42.9	3,473,991	42.6	3,500,098	41.2
Food	3,199,672	38.9	3,275,852	40.1	3,509,868	41.3
Supplies	136,739	1.6	129,049	1.5	163,203	1.9
Other	304,166	3.8	389,829	4.8	415,922	4.9
Total Expenditures	<u>7,168,132</u>	<u>87.2</u>	<u>7,268,721</u>	<u>89.0</u>	<u>7,589,091</u>	<u>89.3</u>
INCREASE IN FUND BALANCE	1,048,792	<u>12.8</u>	895,532	<u>11.0</u>	907,705	<u>10.7</u>
<b>OTHER FINANCING USES</b>						
Transfers out	-	<u>0.0</u>	(381,801)	<u>(4.7)</u>	(294,882)	<u>(3.5)</u>
FUND BALANCE, BEGINNING	<u>1,385,307</u>		<u>871,576</u>		<u>258,753</u>	
FUND BALANCE, ENDING	<u>\$ 2,434,099</u>		<u>\$ 1,385,307</u>		<u>\$ 871,576</u>	

\* \* \* \* \*

**TYPE 'A' LUNCH/BREAKFAST PARTICIPATION**

	2011-2012		2010-2011		2009-2010	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>TYPE 'A' LUNCHES</b>						
Paid	340,044	18.5	353,307	19.8	409,883	21.3
Reduced price	145,138	7.9	156,335	8.7	193,492	10.0
Free	1,356,097	73.6	1,278,514	71.5	1,323,241	68.7
Total Lunches	<u>1,841,279</u>	<u>100.0</u>	<u>1,788,156</u>	<u>100.0</u>	<u>1,926,616</u>	<u>100.0</u>
<b>BREAKFAST</b>						
Paid	39,591	5.9	31,353	5.2	28,206	4.5
Reduced price	44,476	6.6	41,202	6.9	51,075	8.1
Free	586,009	87.5	526,971	87.9	547,840	87.4
Total Breakfast	<u>670,076</u>	<u>100.0</u>	<u>599,526</u>	<u>100.0</u>	<u>627,121</u>	<u>100.0</u>

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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### NOTE 1 - PURPOSE OF SCHEDULES

#### 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 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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2012. These unspent balances are reported as legally restricted ending balances within the General Fund. Additionally, although Title I, Part G – Advanced Placement Test Fee Reimbursement Program and Medi-Cal Administrative Activities funds are considered unrestricted funds, the District monitors and tracks both of the programs' activities under the assigned fund balance in the General Fund and the following schedule outlines the differences in program expenditures in comparison to current year's revenues received:

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 26,357,885
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	1,549
Medi-Cal Billing Option	93.778	(280,083)
Medi-Cal Administrative Activities	93.778	(406,905)
Total Schedule of Expenditures of Federal Awards		<u>\$ 25,672,446</u>

#### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### 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.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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### **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.

### **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.

### **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 Charter Schools**

This schedule lists all Charter Schools chartered by the School District and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

### **General Fund Selected Financial Information**

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

### **Cafeteria Fund Selected Financial Information**

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria fund for the past three years.

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***INDEPENDENT AUDITORS' REPORTS***

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

Governing Board  
Orange Unified School District  
Orange, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District as of and for the year ended June 30, 2012, which collectively comprise Orange Unified School District's basic financial statements and have issued our report thereon dated November 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange Unified 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 Orange Unified School District in a separate letter dated November 7, 2012.

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

VADZINSK, TRINE, Day + Co. LLP

Rancho Cucamonga, California

November 7, 2012





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

Governing Board  
Orange Unified School District  
Orange, California

**Compliance**

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's major Federal programs for the year ended June 30, 2012. Orange Unified 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 Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified 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 Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

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

## Internal Control Over Compliance

The management of Orange Unified 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 Orange Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orange Unified School District's internal control over compliance.

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

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

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

VADZINSKY TRINE, Day + Co, LLP

Rancho Cucamonga, California  
November 7, 2012



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Orange Unified School District  
 Orange, California

We have audited Orange Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, applicable to Orange Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

In our opinion, Orange Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Orange Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
<b>Attendance Accounting:</b>		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No, see below
Continuation education	10	Yes, see below
<b>Instructional Time:</b>		
School districts	6	Yes
County offices of education	3	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	No, see below
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instruction minutes classroom based	4	Yes

We did not perform testing for independent study and charter school independent study because it did not meet the materiality threshold. Additionally, we did not perform steps related to work experience for continuation education because it was not offered by the District.

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

*VADZINSKY TRINE, Day + Co, LLP*

Rancho Cucamonga, California  
November 7, 2012

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**ORANGE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</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 Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.365	Title III, Part A - Limited English Proficient Student Program
84.410	Education Jobs Fund
84.027, 84.173, 84.173A and 84.027A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 782,334</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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**ORANGE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**ORANGE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.



**ORANGE UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board  
Orange Unified School District  
Orange, California

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

However, during our audit 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 7, 2012, on the financial statements of Orange Unified School District.

### ***INTERNAL CONTROLS***

#### ***El Rancho Charter – Revolving Account***

##### **Observation**

Based on our examination of El Rancho Charter School's revolving account activities, it appears that the site does not follow the same authorization procedure present at the District office. Specifically, the site currently does not utilize any document to substantiate the authorization of revolving account transactions prior to execution. Instead, all revolving account transactions appear to be authorized subsequent to transactions taking place which basically circumvents and nullifies general disbursement controls.

##### **Recommendation**

Similar to the District's use of "Request of Check" form, El Rancho Charter should also use a form to substantiate authorization of revolving account transactions. The use of such form would prevent the occurrence of questionable transactions and would assist the site's adherence to established budgets.

### ***ASSOCIATED STUDENT BODY (ASB)***

#### ***Yorba Academy of the Arts***

##### **Observation**

We have selected the months of September and October 2011 as our test months and reviewed all receipts generated during these two sample months. During our review, we noted that deposits were not being made in a timely manner, using the dates referenced on receipts as the initial collection dates. Delays ranging from 8 to 17 days were noted.

**Recommendation**

The District's cash handling procedures require the sites to deposit larger deposits on a daily basis and all other deposits within two to three days of the initial collection. The ASB should adhere to the District's established procedures to minimize the potential of ASB's cash being lost, stolen, or misappropriated.

**Observation**

It appears that the site's ASB was engaged in a fundraiser without following the proper procedures. The fundraising activity was identified as a car wash held by the Yorba Band Department during late September to early October of 2011. Based on inquiry with the person responsible for managing the ASB activities, this fundraiser was never approved by the ASB.

**Recommendation**

The District's ASB procedures state that all fundraising activities must be approved and stated in the student council minutes. The approval process allows the student council and the ASB advisor to review the nature of the activity to ensure that the activity is in accordance to allowable fundraisers. Furthermore, the approval process also assists in maximizing revenues generated by preventing the scheduling of multiple fundraising events in the same time period.

*Villa Park High School*

**Observation**

Per our review of the ASB's receipting records and inquiry with ASB personnel, it appears that receipts or other supporting documents are not being generated by teachers during the time at which the change in custody of cash takes place. We noted that teachers are only remitting worksheets summarizing the compositions of deposits without any supporting documents to substantiate the completeness of the deposits.

**Recommendation**

Receipts or other similar documents must be accompanied with any cash collected to ensure that amounts collected are in accordance to supporting documents. The District's ASB procedures regarding cash control procedures state that "All cash received should have adequate back up, e.g. teacher's rosters, tally sheets, Report of Ticket Sales, Cash Register Tape, ASB Deposit form." Accordingly, the ASB should ensure that it follows the District's established procedures.

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

*VADZINSKY TRINE, Day + Co, LLP*

Rancho Cucamonga, California  
November 7, 2012