FULLERTON SCHOOL DISTRICT AUDIT REPORT

For the Fiscal Year Ended June 30, 2010



AUDIT REPORT

For the Fiscal Year Ended June 30, 2010

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FULLERTON SCHOOL DISTRICT AUDIT REPORT

AUDIT KETOKT

For the Fiscal Year Ended June 30, 2010

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Board of Trustees Fullerton School District Fullerton, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fullerton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

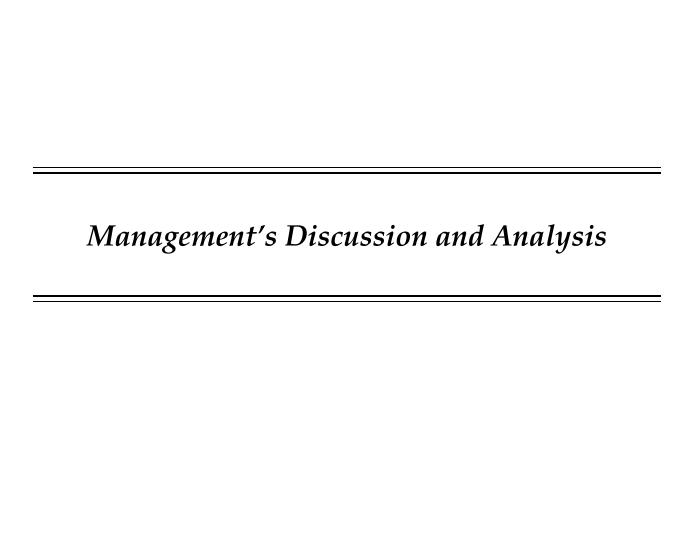
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010 on our consideration of Fullerton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and the required supplementary information on pages 57 and 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fullerton School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Nigro & Nigro, PC October 20, 2010



Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

This discussion and analysis of Fullerton School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net assets decreased slightly from last year. Total net assets decreased \$7,563,058 over the course of the year.
- Overall revenues were \$110.0 million, about \$7.6 million less than expenses.
- The total District-wide expenses were \$117.6 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was \$90.6 million.
- The District increased its outstanding long-term debt \$1.5 million or 2.2%. This was primarily due to an early retirement incentive offered and offset by principal payments made.
- Second period (P2) average daily attendance (ADA) increased by 108, or 0.8%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

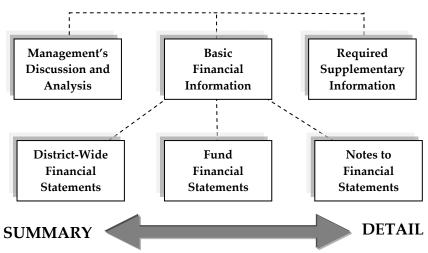
- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's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

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

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

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



Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

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

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

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

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

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

District-wide Statements

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

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

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

Fund Financial Statements

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

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

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

The District has three kinds of funds:

- Governmental funds Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- Proprietary funds When the District charges other District funds for the services it provides, these
 services are reported in proprietary funds. Proprietary funds are reported in the same way that all
 activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the
 District's internal service fund is included within the governmental activities reported in the districtwide statements but provides more detail and additional information, such as cash flows. The
 District uses the internal service fund to report activities that relate to the District's self-insured
 program for workers' compensation claims and property and liability losses.
- Fiduciary funds The District is the trustee, or fiduciary, for assets that belong to others, namely, the
 student activities funds. The District is responsible for ensuring that the assets reported in these
 funds are used only for their intended purposes and by those to whom the assets belong. All of the
 District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude
 these activities from the district-wide financial statements because the District cannot use these assets
 to finance its operations.

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were slightly more on June 30, 2010, than they were the year before – decreasing by 9.8% to \$69,897,298 (See Table A-1).

Table A-1

			Variance			
	Governmer	Governmental Activities				
	2010	2009	(Decrease)			
Current assets	\$ 45,101,436	\$ 47,404,026	\$ (2,302,590)			
Capital assets	105,548,211	109,732,123	(4,183,912)			
Total assets	150,649,647	157,136,149	(6,486,502)			
Current liabilities	11,047,862	11,471,712	(423,850)			
Long-term liabilities	69,704,487	68,204,081	1,500,406			
Total liabilities	80,752,349	79,675,793	1,076,556			
Net assets						
Invested in capital assets,						
net of related debt	47,000,015	54,177,608	(7,177,593)			
Restricted	8,136,088	11,511,854	(3,375,766)			
Unrestricted	14,761,195	11,770,894	2,990,301			
Total net assets	\$ 69,897,298	\$ 77,460,356	\$ (7,563,058)			

Changes in net assets, governmental activities. The District's total revenues were \$110.0 million (See Table A-2). This is a decrease of about \$13.5 million, due primarily to a decrease in Federal and State categorical funding, revenue limit deficit and a \$253 per ADA cut.

The total cost of all programs and services was \$117.6 million. The purely administrative activities of the District accounted for just 3.8% of total costs. The District's expenses are predominantly related to educating and providing other services for students, 81.5%. The total costs decreased by 4.8% primarily due to salary, benefits and plant services.

Table A-2

						Variance
	Governmental Activities					Increase
	2010			2009	((Decrease)
Total Revenues	\$	110,041,342	\$	123,545,815	\$	(13,504,473)
Total Expenses		117,604,400		123,481,068		(5,876,668)
Increase (decrease) in net assets	\$	(7,563,058)	\$	64,747	\$	(7,627,805)

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$33.2 million, which is less than last year's ending fund balance of \$35.1 million. The District's General Fund had a decrease in fund balance in 2009-10 of \$1.6 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues increased by \$0.2 million primarily to reflect revenue limit and federal and state budget actions
- Salaries and benefits costs increased about \$2.4 million with increased salary and benefits costs
- Other non-capital expenses increased \$3.9 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the General Fund anticipated expenditures would exceed revenues by about \$9.9 million, the actual results for the year show that expenditures exceeded revenues by roughly \$2.0 million. Actual revenues were approximately \$0.3 million less than anticipated, but expenditures were almost \$8.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2010 that will be carried over into the 2010-11 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2009-10 the District invested over \$0.5 million in new capital assets. (More detailed information about the District's capital assets is presented in Note 6 to the financial statements).

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

					Variance
	Governmen		Increase		
	2010 2009			(Decrease)
Land	\$ 9,198,655	\$	9,198,655	\$	-
Improvement of sites	7,688		191,811		(184,123)
Buildings and improvements	87,190,867		91,346,582		(4,155,715)
Machinery and equipment	9,151,001		8,995,075		155,926
Total	\$ 105,548,211	\$	109,732,123	\$	(4,183,912)

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$69.7 million in general obligation bonds, special tax bonds, certificates of participation, loans, capital leases and employment benefits – a net increase of 2.2% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

					1	/ariance
	Governmental Activities					Increase
	2010			2009		Decrease)
General obligation bonds	\$	46,601,643	\$	47,541,177	\$	(939,534)
Special tax bonds		8,543,099		8,731,092		(187,993)
Certificates of participation		6,900,000		7,120,000		(220,000)
Loans		803,608		1,154,344		(350,736)
Capital leases		1,375,845		1,572,510		(196,665)
Early retirement incentives		2,218,116		5,610		2,212,506
Compensated absences		1,191,499		1,249,073		(57,574)
Other postemployment benefits		2,070,677		830,275		1,240,402
Total	\$	69,704,487	\$	68,204,081	\$	1,500,406

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2010-11 Budget Bill was passed by the Legislature and signed by the Governor on October 8, 2010. The plan attempts to address one of the most vexing state budget shortfalls in California's history - the product of continuing structural imbalance between state revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009.

If all of the assumptions are met in the package, the state would be left with a \$1.3 billion General Fund reserve at the end of 2010-11. The budget package includes legislation proposed by the Governor to decrease pension benefits for state employees hired in the future. The package also places a measure on a future state ballot that is intended to stabilize state finances in the future by increasing amounts deposited to the state's rainy-day fund in certain years. While these changes would help the state's longer-term fiscal situation, they would have little effect in the shorter term. We estimate that well over two-thirds of the 2010-11 budget solutions are one-time or temporary in nature. This means that California will continue to face sizable annual budget problems in 2011-12 and beyond.

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 Funds

Ongoing Proposition 98 funding is slightly higher in 2010-11 (\$49.7 billion) than the revised 2009-10 level (\$49.5 billion). To fund at this level, the Legislature suspended the Proposition 98 minimum funding requirement (commonly known as the minimum guarantee) for 2010-11. Absent suspension, the Legislative Analyst's Office (LAO) estimates the minimum guarantee would require \$53.8 billion, which is \$4.1 billion higher than the amount appropriated for 2010-11. The state also is ending 2009-10 with a "settle-up obligation," meaning the state appropriated less in 2009-10 than the revised estimate of the minimum guarantee for that year. The LAO estimates the 2009-10 settle-up obligation is \$1.8 billion. The budget also spends \$242 million in 2010-11 using one-time Proposition 98 funds available from prior years.

Settle-Up Funds

In addition to Proposition 98 funds, the budget plan for 2010-11 provides \$300 million as a payment to begin to meet the state's outstanding 2009-10 Proposition 98 settle-up obligation. Of these settle-up monies, \$90 million is provided for annual education mandate costs and \$210 million will be distributed on an equal per-student basis and applied to school districts' and community colleges' unpaid prior-year mandate claims.

Federal Funds

In addition to these state funds, related budget bills provide K-12 education with \$1.5 billion in special one-time federal funding. Of this amount, \$1.2 billion is from recent federal grants provided specifically to help retain K-12 jobs, and \$272 million is from the last round of stabilization funding from the 2009 stimulus package.

Deferrals Significant Component of Budget Package

Though the state is providing slightly more ongoing funding in 2010-11 than 2009-10, the large reliance on one-time solutions last year resulted in the need for 2010-11 reductions. Under the budget plan, however, the reductions largely are treated as deferrals of payments rather than cuts. Specifically, the package defers \$1.9 billion in additional K-14 payments (\$1.7 billion for K-12 education and \$189 million for community colleges). Rather than being paid in the spring of 2011, these payments will be made in July 2011 (that is, the next fiscal year). Virtually all other K-12 reductions are technical adjustments designed to align appropriations with anticipated program costs, such as for the K-3 Class Size Reduction program. The package also makes some reductions in child care funding. Most notably, the package achieves child care savings by drawing down some provider reserves, reducing the reimbursement rate for license-exempt providers (from 90 percent to 80 percent of the license-provider rate), and reducing the administrative allowance for certain providers (from 19 percent to 17.5 percent of total contract amounts). The Governor also vetoed \$256 million in funding for child care.

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Other Factors

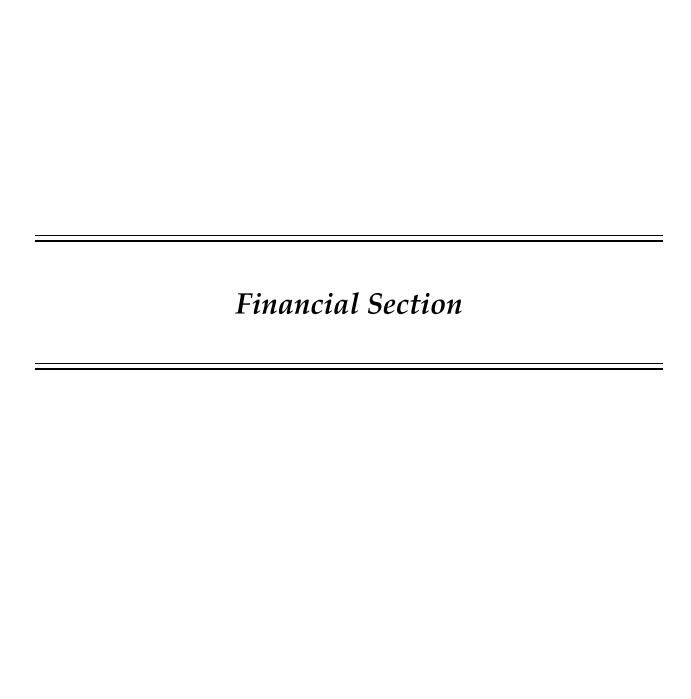
Enrollment

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

All of these factors were considered in preparing the Fullerton School District budget for the 2010-11 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (714) 447-7412.



Statement of Net Assets

June 30, 2010

ASSETS	Total Governmental Activities
Current assets:	Activities
Cash	\$ 27,614,311
Investments	2,544,529
Accounts receivable	13,205,142
Inventories	238,389
Prepaid expenditures	1,499,065
Total current assets	45,101,436
Capital assets:	
Land	9,198,655
Improvement of sites	16,447,782
Buildings and improvements	123,182,161
Machinery and equipment	18,324,758
Less accumulated depreciation	(61,605,145)
Total capital assets	105,548,211
Total capital assets	100,010,211
Total assets	150,649,647
LIABILITIES	
Current liabilities:	
Accounts payable and current liabilities	9,736,659
Deferred revenues	1,311,203
Total current liabilities	11,047,862
Long-term liabilities:	
Portion due or payable within one year	2,808,196
Portion due or payable after one year	66,896,291
Total long-term liabilities	69,704,487
Total liabilities	80,752,349
NET ASSETS	
Invested in capital assets, net of related debt	47,000,015
Restricted for:	
Capital projects	3,547,423
Debt service	2,371,941
Categorical programs	2,216,724
Unrestricted	14,761,195
Total Net Assets	\$ 69,897,298

FULLERTON SCHOOL DISTRICT Statement of Activities For the Figure 1 Years For the Large 20, 2016

For the Fiscal Year Ended June 30, 2010

				D	D.		R (et (Expense) evenue and Changes in
				Program				Net Assets
			Ch	arges for		Operating Grants and	C	overnmental
Functions/Programs		Expenses		ervices	Contributions			Activities
Governmental Activities								
Instructional Services:								
Instruction	\$	74,560,392	\$	140,665	\$	17,070,742	\$	(57,348,985)
Instruction-Related Services:	,	,===,==	•	-,	,	,,	,	(- ,,,
Supervision of instruction		2,576,055		13,976		1,426,679		(1,135,400)
Instructional library, media and technology		1,923,447		, -		176,773		(1,746,674)
School site administration		7,444,816		1,539		784,181		(6,659,096)
Pupil Support Services:		, ,-		,		, ,		(-,,,
Home-to-school transportation		1,787,931		57,437		997,584		(732,910)
Food services		4,384,970		-		3,285,696		(1,099,274)
All other pupil services		3,211,335		17,621		1,451,028		(1,742,686)
General Administration Services:		, ,		,		,		,
Other general administration		4,523,637		233		567,849		(3,955,555)
Plant services		8,422,363		4,039		206,461		(8,211,863)
Community services		3,490		· -		-		(3,490)
Enterprise activities		(208,587)		-		-		208,587
Interest on long-term debt		2,849,151		-		-		(2,849,151)
Other outgo		1,379,362		16,747		747,532		(615,083)
Depreciation (unallocated)		4,746,038		_		- -		(4,746,038)
Total Governmental Activities	\$	117,604,400	\$	252,257	\$	26,714,525		(90,637,618)
	Gene	ral Revenues:						
		erty taxes						36,427,159
	_	al and state aid	d not r	ostricted to	nocii	ic purposo		42,373,856
		est and investm			specii	ne purpose		42,373,636
		ellaneous	iciti ca	irmigs				3,872,086
	WIISCC	maneous						3,072,000
	Total	general reveni	ies					83,074,560
	Chan	ge in net assets	;					(7,563,058)
	Net a	ssets - July 1, 2	009					77,460,356
	Net a	ssets - June 30,	2010				\$	69,897,298

FULLERTON SCHOOL DISTRICT Balance Sheet – Governmental Funds June 30, 2010

	General Fund		oital Project Fund for Blended omponent Units	Non-Major overnmental Funds	Total Governmental Funds	
ASSETS						
Cash	\$	7,334,444	\$ 14,201	\$ 17,070,664	\$	24,419,309
Investments		-	2,544,529	-		2,544,529
Accounts receivable		12,201,023	52	952,323		13,153,398
Due from other funds		237,265	-	30,323		267,588
Inventories		163,611	-	74,778		238,389
Prepaid expenditures		1,478,231	 -	 20,834		1,499,065
Total Assets	\$	21,414,574	\$ 2,558,782	\$ 18,148,922	\$	42,122,278
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$	6,249,935	\$ 35,544	\$ 983,996	\$	7,269,475
Due to other funds		80,583	-	237,159		317,742
Deferred revenue		140,241	 1,008,824	 162,138		1,311,203
Total Liabilities		6,470,759	1,044,368	1,383,293		8,898,420
Fund Balances						
Reserved for:						
Inventories		163,611	-	74,778		238,389
Revolving cash		50,000	-	1,466		51,466
Debt service		-	-	2,371,941		2,371,941
Prepaid expenditures		1,478,231	-	20,834		1,499,065
Categorical programs		2,216,724	-	-		2,216,724
Unreserved; reported in:						
General fund		11,035,249	-	-		11,035,249
Capital project funds		-	1,514,414	5,371,741		6,886,155
Special revenue funds		-	-	8,924,869		8,924,869
Total Fund Balances		14,943,815	1,514,414	16,765,629		33,223,858
Total Liabilities and Fund Balances	\$	21,414,574	\$ 2,558,782	\$ 18,148,922	\$	42,122,278

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2010

Total fund balances - governmental funds				\$ 33,223,858
Capital assets used in governmental activities reported as assets in governmental funds. The accumulated depreciation is (\$61,605,145).	105,548,211			
In governmental funds, interest on long-term of matures and is paid. In the government-wide period that it is incurred. The additional liability	statement of activities, it is recognized in t	he	it	
the period was:				(1,013,699)
Long-term liabilities, including bonds payable and therefore are not reported as liabilities in the liabilities at year-end consists of:	the fund financial statements. Long-term		46 601 642	
	eneral obligation bonds payable	\$	46,601,643	
-	pecial tax bonds payable		8,543,099	
	ertificates of participation payable		6,900,000	
	nergy loan payable		363,166	
	ıllerton RDA loan payable apital leases payable		440,442 1,375,845	
	apital leases payable arly retirement incentive		2,218,116	
	ompensated absences payable		1,191,499	
	ther postemployment benefits payable		2,070,677	(69,704,487)
_	p p y			(**)* * =/=**)
Internal service funds are used to conduct cer	tain activities for which costs are charged t	Ю		
other funds on a full cost-recovery basis. Beca	use internal service funds are presumed			
to operate for the benefit of governmental activ	vities, assets and liabilities of internal servi	ce		
funds are reported with governmental activities	es in the statement of net assets. Net assets	6		
for internal service funds are:				 1,843,415
Total net assets - governmental activities				\$ 69,897,298

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

For the Fiscal Year Ended June 30, 2010

REVENUES	General Fund]	pital Project Fund for Blended omponent Units	Non-Major overnmental Funds	Go	Total overnmental Funds
General Revenues:						
Property taxes	\$ 31,896,850	\$	996,968	\$ 3,533,341	\$	36,427,159
Federal and state aid not restricted						
to specific purpose	41,884,303		-	489,553		42,373,856
Earnings on investments	267,617		-	133,842		401,459
Miscellaneous	924,320		-	2,947,766		3,872,086
Program Revenues:						
Charges for services	252,257		-	-		252,257
Operating grants and contributions	 21,929,653		162,541	 4,622,331		26,714,525
Total Revenues	97,155,000		1,159,509	11,726,833		110,041,342
EXPENDITURES				 		
Instructional Services:						
Instruction	69,492,623		-	2,099,964		71,592,587
Instruction-Related Services:						
Supervision of instruction	2,557,093		-	_		2,557,093
Instructional library, media and technology	1,846,771		_	-		1,846,771
School site administration	6,995,430		-	397,001		7,392,431
Pupil Support Services:						
Home-to-school transportation	1,734,695		-	_		1,734,695
Food services	-		-	4,339,142		4,339,142
All other pupil services	3,211,335		-	-		3,211,335
Community services	3,490		-	-		3,490
General Administration Services:						
Other general administration	3,978,085		-	271,521		4,249,606
Plant services	7,754,043		-	113,698		7,867,741
Facility acquisition and construction	29,873		323,928	984,513		1,338,314
Other outgo:						
Transfers between agencies	597,164		-	-		597,164
Debt service - issuance costs	-		27,355	-		27,355
Debt service - principal	624,640		187,993	2,132,635		2,945,268
Debt service - interest	 371,002		531,912	 1,970,006		2,872,920
Total Expenditures	 99,196,244		1,071,188	 12,308,480		112,575,912
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	 (2,041,244)		88,321	 (581,647)		(2,534,570)
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	963,000		-	527,843		1,490,843
Interfund transfers out	(513,260)		-	(977,583)		(1,490,843)
Proceeds from capital lease	-		-	694,874		694,874
Total Other Financing Sources and Uses	449,740			245,134		694,874
Net Change in Fund Balances	(1,591,504)		88,321	(336,513)		(1,839,696)
Fund Balances, July 1, 2009	 16,535,319		1,426,093	 17,102,142		35,063,554
Fund Balances, June 30, 2010	\$ 14,943,815	\$	1,514,414	\$ 16,765,629	\$	33,223,858

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2010

Total net change in fund balances - governmental funds	\$ (1,839,696)
Amounts reported for governmental activities in the statement of activities are different because:	
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between	
are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:	
Expenditures for capital outlay 562,126 Depreciation expense (4,746,038)	(4,183,912)
In governmental funds, repayments of long-term debt are reported as expenditures.	
In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	2,945,268
In governmental funds, proceeds from debt are recognized as other financing	
sources. In the government-wide statements, proceeds from debt are reported as an increase to	
liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:	(694,874)
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an	
expenditure from current resources. In the government-wide statement of activities, however,	
this is recorded as interest expense for the period:	(366,727)
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other	
Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:	11,261
In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability	
at the end of the period was:	(1,240,402)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	26,026
In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example are measured by the amounts earned during the year. In the governmental	
funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts earned exceeded amounts used by:	(2,154,932)
The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.	 (65,070)
Change in net assets of governmental activities	\$ (7,563,058)

FULLERTON SCHOOL DISTRICT Statement of Net Assets – Proprietary Funds June 30, 2010

	Governmental Activities Internal Service	
		Fund
ASSETS		
Cash	\$	3,195,002
Accounts receivable		51,744
Due from other funds		51,501
—		
Total assets		3,298,247
LIABILITIES		
Accounts payable and accrued liabilities		35,376
Estimated liability for open claims and IBNR		1,418,109
Due to other funds		1,347
Total liabilities		1,454,832
NET ASSETS		
Unrestricted		1,843,415
Total net assets	\$	1,843,415

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds For the Fiscal Year Ended June 30, 2010

	Governmental Activities Internal Service Fund	
OPERATING REVENUES		
Charges to other funds	\$	790,886
Other fees and contracts	,	89,289
Other local revenues		43,017
Total operating revenues		923,192
OPERATING EXPENSES		
Classified salaries		75,101
Employee benefits		25,812
Books and supplies		165,144
Services and other operating expenditures		760,764
Total operating expenses		1,026,821
Operating Income		(103,629)
NON-OPERATING REVENUES		
Interest income		38,559
Change in Net Assets		(65,070)
Net Assets, July 1, 2009		1,908,485
Net Assets, June 30, 2010	\$	1,843,415

FULLERTON SCHOOL DISTRICT Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended June 30, 2010

	Governmental Activities Internal Service	
		Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from self-insurance premiums	\$	906,515
Cash received from other sources		132,306
Cash paid for operating expenses		(1,316,970)
Net cash provided (used) by operating activities		(278,149)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		42,102
Net cash provided by investing activities		42,102
Net decrease in cash		(236,047)
Cash, July 1, 2009		3,431,049
Cash, June 30, 2010	\$	3,195,002
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income	\$	(103,629)
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable		115,614
Decrease in due from other funds		15
Decrease in accounts payable and current liabilities		(290,145)
Decrease in due to other funds		(4)
Net cash provided (used) by operating activities	\$	(278,149)

FULLERTON SCHOOL DISTRICT Statement of Net Assets – Fiduciary Funds June 30, 2010

		Agency Funds	
	_	Student Body Funds	
Assets			
Cash	\$	443,250	
Total Assets	\$	443,250	
Liabilities			
Due to student groups	\$	443,250	
Total Liabilities	\$	443,250	

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

Fullerton School District Capital Facilities Corporation

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

Community Facilities Districts

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Community Facilities Districts (continued)

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

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

Financial Presentation:

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

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

Manifestations of Oversight

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

Accountability of Fiscal Matters

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

Scope of Public Service

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements (continued)

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

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

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

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

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

D. Basis of Accounting

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions:

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

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

Deferred revenue:

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

Expenses/expenditures:

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

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Capital Projects Fund for Blended Component Units* is used to account for proceeds received from the sale of special tax bonds levied for the purchase of land, expansion or rehabilitation of school facilities and related equipment.

Non-Major Governmental Funds:

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

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

Proprietary Funds:

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

Fiduciary Funds:

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. <u>Capital Assets</u>

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

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

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

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

4. Deferred Revenue

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

5. <u>Compensated Absences</u>

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. <u>Compensated Absences (continued)</u>

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

6. Long-Term Obligations

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

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

7. Fund Balance Reserves and Designations

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

8. Net Assets

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax

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

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

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

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

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

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

J. Self-Insurance Internal Service Fund

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

Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. <u>Use of Estimates</u>

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

L. New GASB Pronouncements

During the 2009-10 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets was issued in June, 2007. The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets - and therefore the financial position of governments - and of the periodic cost associated with the usage of such service capacity in governmental financial statements. This Statement is not expected to have any financial impact on the District.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* was issued in June, 2008. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Because the District carries no derivative instruments, this Statement is not applicable in the current fiscal year.

FULLERTON SCHOOL DISTRICT Notes to Financial Statements

June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

L. New GASB Pronouncements (continued)

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* was issued in December, 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurement by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates.

GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies was issued in December, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. This Statement has no impact on the District.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	 overnmental Activities	Fiduciary Funds		
Cash:				
Cash in county treasury	\$ 26,441,742	\$	-	
Cash on hand and in banks	996,103		443,250	
Cash in revolving fund	176,466			
Total cash	\$ 27,614,311	\$	443,250	
Investments	\$ 2,544,529			

Notes to Financial Statements

June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with no restriction on the percentage held in each authorized investment in relation to the District's entire investment portfolio.

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

General Authorizations

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

	Maximum	Maximum	Maximum
Authorized	Remaining	Percentage	Investment
Investment Type	Maturity	of Portfolio	in One Issuer
U.S. Agency Securities	5 years	None	None
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None

Notes to Financial Statements

June 30, 2010

NOTE 2 - CASH AND INVESTMENTS (continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately \$26,458,139 and an amortized book value of \$26,441,742. The average weighted maturity for this pool is 304 days. In addition, the District maintains investments in U.S. Bank money market funds with an amortized cost of \$2,544,529. Fair value for the investments approximates amortized cost.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2010.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, \$927,490 of the District's bank balance of \$1,633,073 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

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

Notes to Financial Statements

June 30, 2010

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

		Capita	al Project	N	on-Major			
	General	Fund fo	or Blended	Governmental Funds			Pı	oprietary
	Fund	Compo	nent Units			Totals	Fund	
Federal Government:								
Categorical aid programs	\$ 1,839,489	\$	-	\$	721,037	\$ 2,560,526	\$	-
State Government:								
Revenue limit	6,728,281		-		-	6,728,281		-
Lottery	390,302		-		-	390,302		-
Categorical aid programs	1,379,039		-		171,214	1,550,253		-
Local:								-
Interest	30,757		-		11,289	42,046		1,970
Miscellaneous	 1,833,155		52		48,783	 1,881,990		49,774
Total	\$ 12,201,023	\$	52	\$	952,323	\$ 13,153,398	\$	51,744

NOTE 4 – DESIGNATED FUND BALANCES

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

General Fund:	
Economic Uncertainties	\$ 8,620,603
Beechwood Intervention 097	9,002
Fisler Interv Science Olympia 097	1,455
Sat School Opportunity Attendance 099	146,076
BW Discretionary School Budget 102	6,960
School Site Labs 102	74,224
Maple Intervention 117	1,161
High Priority School Grant 210	5,404
BW School Based Coord Pgm 304	13,541
Atrs Music Block Grant 316	10,000
VP PE Teacher Incentive Prog 341	9,824
API Discretionary Rewards 367	5,364
Instructional Matl Realignment 380	503,225
District Testing 508	2,354
Oral Health Assessment Prog 509	13,298
Candidate Subsidy Reimb 518	3,355
Reserve for FTE's	420,000
Categorical Year End Sweep/Tier III	1,189,401
Capital Project Fund for Blended Component Units:	
Other Designations	1,514,414
Non-Major Governmental Funds:	
Other Designations	14,296,612
Total	\$ 26,846,273

Notes to Financial Statements

June 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

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

A. <u>Due From/Due To Other Funds</u>

Individual fund interfund receivable and payable balances as of June 30, 2010 are as follows:

	Due From Other Funds						
	General Fund		Non-Major Governmental Funds		Proprietary Fund		Total
General Fund	\$	-	\$	30,323	\$	50,260	\$ 80,583
Non-Major Governmental Funds		235,918		-		1,241	237,159
Proprietary Fund		1,347		-		-	 1,347
Total	\$	237,265	\$	30,323	\$	51,501	\$ 319,089
General Fund due from Child Development General Fund due from Child Development General Fund due from Child Development	\$ 60,451 96,300 8,182						
General Fund due from Capital Facilities Fu							65,151
General Fund due from Capital Facilities Fu		_		all coete			1,347
General Fund due from Special Reserve Fun		•			oicos r	nid	4,487
General Fund due from Self-Insurance Fund		-	-	*	oices p	aiu	1,347
Special Revenue Fund for Capital Outlay Pro		, ,			oject co	nete	324
Child Development Fund due from General				-	ojeci ci	2515	27,191
Child Development Fund due from General		•	•	-			2,808
Self-Insurance Fund due from General Fund		U		ogramo			36,808
Self-Insurance Fund due from General Fund				tion insurance	e		13,452
Self-Insurance Fund due from Child Develop						urance	1,179
Self-Insurance Fund due from Capital Facilit	•			-			 62
Total							\$ 319,089

Notes to Financial Statements

June 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS (continued)

B. <u>Interfund Transfers</u>

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

Interfund transfers for the 2009-10 fiscal year are as follows:

	Interfund Transfers In					
			No	on-Major		
	(General	Gov	ernmental		
		Fund		Funds		Total
General Fund	\$	-	\$	513,260	\$	513,260
Non-Major Governmental Funds		963,000		14,583		977,583
Total	\$	963,000	\$	527,843	\$	1,490,843
General Fund transfer to Building Fund for laptop revenues					\$	513,260
Child Development Fund transfer to General Fund to reimburse for indirect of	osts, uti	lities, and sal	laries			150,000
Special Reserve Fund for Postemployment Benefits transfer to General Fund for	for post	employment	benefit	costs		580,000
Building Fund transfer to General Fund for IB program support and textbook	s					233,000
Special Reserve Fund for Capital Outlay Projects transfer to Building Fund fo	r debt se	ervice payme	nt			14,583
Total					\$	1,490,843

FULLERTON SCHOOL DISTRICT Notes to Financial Statements

June 30, 2010

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 is shown below:

	Balance						Balance	
	July 1, 2009		Additions		Deletions		June 30, 2010	
Capital assets not being depreciated:								
Land	\$ 9,19	98,655	\$	-	\$	-	\$	9,198,655
Total capital assets not being depreciated	9,19	8,655		-		-		9,198,655
Capital assets being depreciated:								
Improvement of sites	16,44	7,782		-		-		16,447,782
Buildings and improvements	123,02	22,067		160,094		-		123,182,161
Machinery and equipment	18,16	58,392		402,032		245,666		18,324,758
Total capital assets being depreciated	157,63	88,241		562,126		245,666		157,954,701
Accumulated depreciation for:								
Improvement of sites	(16,25	55,971)		(184,123)		-		(16,440,094)
Buildings and improvements	(31,67	75,485)		(4,315,809)		-		(35,991,294)
Machinery and equipment	(9,17	73,317)		(246,106)		(245,666)		(9,173,757)
Total accumulated depreciation	(57,10	04,773)		(4,746,038)		(245,666)		(61,605,145)
Total capital assets being depreciated, net	100,53	33,468		(4,183,912)		-		96,349,556
Governmental activity capital assets, net	\$ 109,73	32,123	\$	(4,183,912)	\$	-	\$	105,548,211

Notes to Financial Statements

June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below.

		Balance,				Balance,		Amount Due		
	Jı	uly 1, 2009	Additions		Deductions		June 30, 2010		Within One Year	
General Obligation Bonds:										
Principal payments	\$	45,390,458	\$	-	\$	1,295,000	\$	44,095,458	\$	1,440,000
Accreted interest		1,970,538		366,727		-		2,337,265		-
Unamortized issuance premium		180,181		-		11,261		168,920		11,261
Total General Obligation Bonds		47,541,177		366,727		1,306,261		46,601,643		1,451,261
Special Tax Bonds:										
CFD 2000-1		709,373		-		16,345		693,028		16,345
CFD 2001-1		8,021,719		-		171,648		7,850,071		180,803
Total Special Tax Bonds		8,731,092		-		187,993		8,543,099		197,148
Certificates of Participation		7,120,000		-		220,000		6,900,000		230,000
Energy Loan		713,902		-		350,736		363,166		363,166
Fullerton RDA Loan		440,442		-		-		440,442		-
Capital Leases		1,572,510		694,874		891,539		1,375,845		566,621
Early Retirement Incentive		5,610		2,218,116		5,610		2,218,116		-
Compensated Absences		1,249,073		-		57,574		1,191,499		-
Other Postemployment Benefits		830,275		1,240,402		-		2,070,677		-
Totals	\$	68,204,081	\$	4,520,119	\$	3,019,713	\$	69,704,487	\$	2,808,196

A. General Obligation Bonds

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

Series A

On July 3, 2002, the District issued Series A, in the amount of \$40,000,458. The issue consisted of: a) Current Interest Bonds of \$23,415,000 with stated interest rates ranging from 3.25% to 5.375% and fully maturing on August 1, 2019, b) Term Bonds of \$12,040,000 with a stated interest rate of 5.0% due August 1, 2026 and c) Capital Appreciation Bonds of \$4,545,458 with yields to maturity ranging from 5.45% to 5.65% and fully maturing on August 1, 2023. At June 30, 2010, the outstanding balance on the bonds was \$35,470,458, in addition to \$2,337,265 of accreted interest on the capital appreciation bonds.

Notes to Financial Statements

June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

Series B

On August 23, 2005 the District issued Series B of its General Obligation Bonds, 2002 Election, in the amount of \$9,699,542. The issue consists of \$6,959,542 Serial Bonds having interest rates ranging from 3.9% to 4.5% and maturing on August 1, 2022, and \$2,740,000 Term Bonds with a stated interest rate of 5.125% and maturing on August 1, 2026. At June 30, 2010, \$8,625,000 was outstanding.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2010 are as follows:

Fiscal						
Year	Principal		Interest	Total		
2010-11	\$ 1,440,000	\$	1,868,181	\$	3,308,181	
2011-12	1,600,000		1,808,000		3,408,000	
2012-13	1,765,000		1,740,700		3,505,700	
2013-14	1,940,000 1,662,700				3,602,700	
2014-15	2,135,000		1,572,963		3,707,963	
2015-20	14,170,000		6,990,809		21,160,809	
2020-25	11,235,458		11,449,129		22,684,587	
2025-27	9,810,000		502,079		10,312,079	
	_		_			
Total	\$ 44,095,458	\$	27,594,561	\$	71,690,019	

FULLERTON SCHOOL DISTRICT Notes to Financial Statements June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

On April 9, 1999, the District issued certificates of participation in the amount of \$8,890,000 through the Fullerton School District Capital Facilities Corporation, at interest rates ranging between 3.2% to 5.0%. The certificates were issued to make capital improvements to modernize certain school sites in the District, and to purchase additional classroom buildings. At June 30, 2010, the outstanding balance of the certificates was \$6,900,000.

The annual requirements to amortize all certificates are as follows:

Fiscal						
Year	Principal		Interest	Total		
2010-11	\$ 230,000	\$	335,918	\$	565,918	
2011-12	240,000		325,798		565,798	
2012-13	255,000		314,998		569,998	
2013-14	265,000	303,267			568,267	
2014-15	275,000		290,812		565,812	
2015-20	1,600,000		1,243,875		2,843,875	
2020-25	2,025,000		816,250		2,841,250	
2025-30	2,010,000		257,500		2,267,500	
Total	\$ 6,900,000	\$	3,888,417	\$	10,788,417	

Notes to Financial Statements

June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Energy Loan

The District entered into a lease agreement with Suntrust Leasing Corporation as of January 18, 2001 for \$3,000,000. The loan proceeds were paid to Independent Energy Consulting based on an agreement dated November 7, 2000 to perform a number of energy conservation projects at various District sites. The lease agreement was amended March 30, 2003 to obtain a lower interest rate from 4.89% to 3.54% with a cost savings of \$84,060. The annual payment was reduced from \$386,598 to \$376,036. The annual interest rate is 3.54%. Principal and interest payments are as follows:

Fiscal							
Year	P	rincipal	I	nterest	Total		
2010-11	\$	363,166	\$	12,870	\$	376,036	

D. Fullerton Redevelopment Agency Loan

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

The payment amount is based on the outstanding loan balance at each June 30. Repayment requirements on the June 30, 2010 balance follow:

Fiscal							
Year	Principal						
2010-11	\$	-					
2011-12		31,460					
2012-13		31,460					
2013-14		31,460					
2014-15		31,460					
2015-20		157,300					
2020-25		157,302					
Total	\$	440,442					

Notes to Financial Statements

June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Capital Leases

The District leases equipment valued at \$4,619,358 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal			
Year	Principal	 Interest	Total
2010-11	\$ 566,621	\$ 68,727	\$ 635,348
2011-12	475,441	50,953	526,394
2012-13	230,347	19,095	249,442
2013-14	103,436	 5,315	108,751
Total	\$ 1,375,845	\$ 144,090	\$ 1,519,935

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

F. Special Tax Bonds

Community Facilities District No.2000-1

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

The bonds were issued on November 21, 2001 with interest rates ranging from 3.5% to 5.875% and maturing in 2020, 2025 or 2031 depending on the terms.

Notes to Financial Statements

June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Special Tax Bonds (continued)

Community Facilities District No.2000-1 (continued)

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

Fiscal				
Year	I	Principal	Interest	Total
2010-11	\$	16,345	\$ 39,044	\$ 55,389
2011-12		19,614	38,171	57,785
2012-13		19,614	37,200	56,814
2013-14		19,614	36,205	55,819
2014-15		19,614	35,185	54,799
2015-20		120,953	157,340	278,293
2020-25		160,181	117,465	277,646
2025-30		215,754	62,990	278,744
2030-32		101,339	6,050	 107,389
Total	\$	693,028	\$ 529,650	\$ 1,222,678

Community Facilities District No.2001-1

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

The bonds were issued on December 20, 2001 with interest rates ranging from 3.4% to 6.25% and maturing in 2020, 2023 or 2031 depending on the terms.

FULLERTON SCHOOL DISTRICT Notes to Financial Statements June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Special Tax Bonds (continued)

Community Facilities District No.2001-1 (continued)

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

Fiscal					
Year	Principal Interest		Total		
2010-11	\$ 180,803	\$	482,660	\$	663,463
2011-12	189,958		472,554		662,512
2012-13	201,401		461,691		663,092
2013-14	212,844		449,986		662,830
2014-15	224,288		437,415		661,703
2015-20	1,341,150		1,962,183		3,303,333
2020-25	1,812,611		1,475,858		3,288,469
2025-30	2,467,165		801,290		3,268,455
2030-32	1,219,851		79,005		1,298,856
Total	\$ 7,850,071	\$	6,622,642	\$	14,472,713

NOTE 8 – JOINT POWERS AGREEMENTS

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

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

Notes to Financial Statements

June 30, 2010

NOTE 8 - JOINT POWERS AGREEMENTS (continued)

Condensed unaudited financial information is as follows:

	ASCIP			
	Unaudited			
		June 30, 2010		
Total Assets	\$	244,838,044		
Total Liabilities		138,884,803		
Net Assets	\$	105,953,241		
Total Revenues	\$	177,532,660		
Total Expenses		162,916,341		
Change in Net Assets	\$	14,616,319		

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Litigation

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

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Notes to Financial Statements

June 30, 2010

NOTE 10 - RISK MANAGEMENT (continued)

Workers' Compensation

For fiscal year 2010, the District was self-funded for workers compensation, with coverage purchased from a private insurer for claims in excess of the \$1.0 million retention amount.

Employee Medical Benefits

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

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2010:

	Workers'		
	Compensation		
Liability Balance, June 30, 2009	\$	1,626,696	
Claims and changes in estimates		552,177	
Claims payments		(760,764)	
Liability Balance, June 30, 2010	\$	1,418,109	
Assets available to pay claims at June 30, 2010	\$	1,843,415	

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Notes to Financial Statements

June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

<u>Plan Description and Provisions</u>

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2009-10 was 9.709%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

		Percent of Required
C	ontribution	Contribution
\$	1,529,295	100%
\$	1,593,917	100%
\$	1,628,784	100%
	\$	\$ 1,593,917

State Teachers' Retirement System (STRS)

Plan Description

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

Notes to Financial Statements

June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

			Percent of Required
	Co	ntribution	Contribution
2009-10	\$	4,302,698	100%
2008-09	\$	4,504,331	100%
2007-08	\$	4,491,947	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$2.2 million to STRS (4.267% of salaries subject to STRS in 2009-10).

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	118
Active plan members*	939
Total	1,057
Number of participating employers	One

^{*}According to the July 1, 2009 actuarial valuation

Notes to Financial Statements June 30, 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information

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

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

Classified personnel – group medical insurance coverage provided by the MEBA will be paid by the District for employees who are age 50 to 65, have been employed by the District for at least ten (10) years, and who retire under PERS. This provision will apply only to those employees who remain fully retired as defined by the appropriate retirement system. Such benefit shall last until the employee becomes eligible for Medicare, when this benefit will cease. If the employee elects to have group medical coverage for his/her spouse, the District will contribute the entire cost for the two party HMO plans. To be eligible for such contribution, an employee shall have his/her spouse covered for at least twelve (12) months prior to retirement. Should the employee choose the two party PPO the employee will pay all costs over the highest cost two party HMO on a monthly basis. This applies to all employees as of January 1, 2003.

Special Arrangements

The current and one former Superintendent will receive full family medical, dental, vision and subsidized life insurance to age 65. After age 65 the Superintendent will receive lifetime Employee Plus One Medicare supplemental coverage.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2009-10, the District contributed \$934,739.

Annual OPEB Cost and Net OPEB Obligation

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

Notes to Financial Statements

June 30, 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

	Amount	
Annual required contribution (ARC)	\$	2,186,336
Interest on net OPEB obligation		41,514
Adjustment to ARC		(52,709)
Annual OPEB cost		2,175,141
Contributions made:		
Contributions for pay-as-you-go costs		(934,739)
Increase in net OPEB obligation		1,240,402
Net OPEB liability - July 1, 2009		830,275
Net OPEB liability - June 30, 2010	\$	2,070,677

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 and 2009-10 are as follows:

		Annual			Net	
Year Ended]	Required	Percentage		OPEB	
June 30,	Co	ontribution	Contributed	C	Obligation	
2009	\$	1,803,954	54%	\$	830,275	
2010	\$	2,186,336	43%	\$	2,070,677	

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2009, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$17.2 million and the unfunded actuarial accrued liability (UAAL) was \$17.2 million.

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

Notes to Financial Statements

June 30, 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Unit Credit
Amortization Method	Closed Level Dollar Method
Remaining Amortization Period	30 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rates:	
Medical	7.0%
Dental and Vision	5.0%

NOTE 13 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

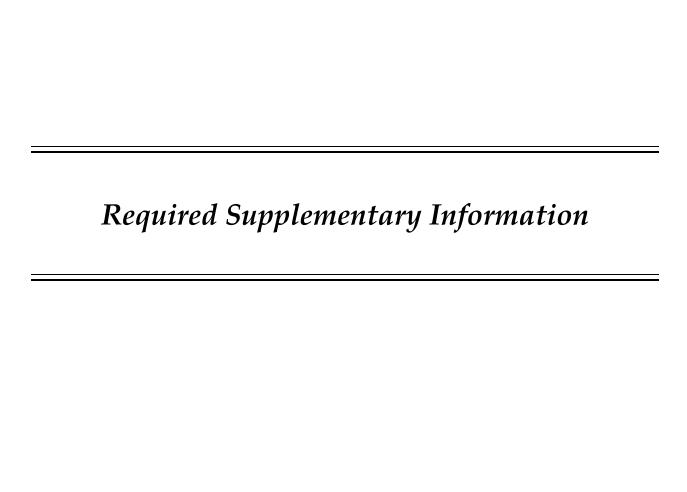
	General Fund	
Capital Outlay		\$ 2,800

FULLERTON SCHOOL DISTRICT Notes to Financial Statements June 30, 2010

NOTE 14 - SUBSEQUENT EVENT

Tax Revenue Anticipation Notes

The District issued \$5,000,000 of Tax Revenue Anticipation Notes dated August 3, 2010. The notes are due to mature on August 9, 2011 and have a stated interest rate of 2.0%. The notes were sold by the District to supplement its cash flow. Repayment requirements are that a portion of the principal be set aside in a special fund during 2010-11 and remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

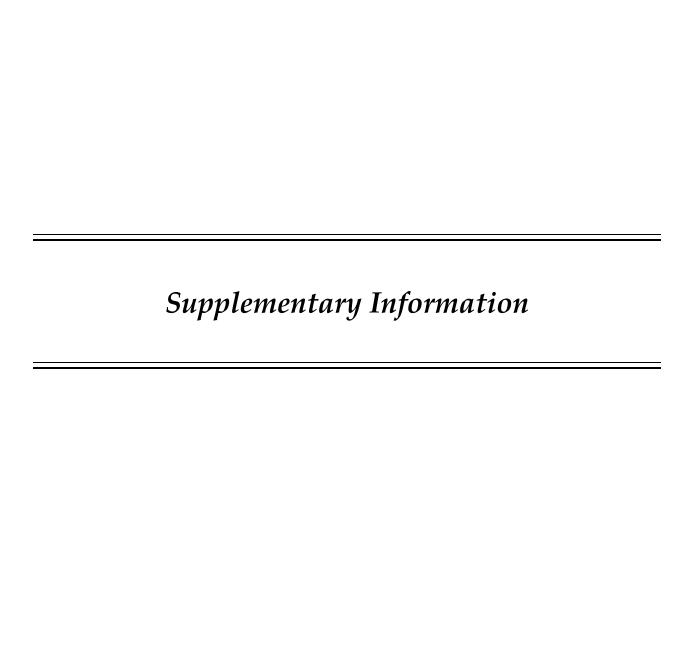


FULLERTON SCHOOL DISTRICT Budgetary Comparison Schedule – General Fund For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts					Variance with		
	Original		Final		Actual (Budgetary Basis)		Final Budget - Pos (Neg)	
Revenues								_
Revenue Limit Sources	\$	66,240,699	\$	62,586,328	\$	63,077,486	\$	491,158
Federal		7,996,072		10,401,089		8,677,684		(1,723,405)
Other State		14,718,631		15,545,716		16,089,846		544,130
Other Local		8,341,777		8,918,917		9,309,984		391,067
Total Revenues		97,297,179		97,452,050		97,155,000		(297,050)
Expenditures								
Certificated Salaries		52,835,249		53,953,577		52,479,515		1,474,062
Classified Salaries		15,281,295		16,045,882		15,281,007		764,875
Employee Benefits		19,780,875		20,290,276		19,510,732		779,544
Books and Supplies		3,739,426		7,239,863		3,988,010		3,251,853
Services and Other Operating Expenditures		7,985,968		8,407,975		6,585,821		1,822,154
Capital Outlay		-		27,073		29,873		(2,800)
Direct Support/Indirect Costs		1,513,643		1,603,258		1,592,806		10,452
Other Outgo		(179,910)		(186,709)		(271,520)		84,811
Total Expenditures		100,956,546		107,381,195		99,196,244		8,184,951
Excess (Deficiency) of Revenues								
Over (Under) Expenditures		(3,659,367)		(9,929,145)		(2,041,244)		7,887,901
Other Financing Sources and Uses								
Interfund Transfers In		963,000		963,000		963,000		-
Interfund Transfers Out		(495,977)		(578,366)		(513,260)		65,106
Total Other Financing Sources and Uses		467,023		384,634		449,740		65,106
Net changes in Fund Balances		(3,192,344)		(9,544,511)		(1,591,504)	_	7,953,007
Fund Balances, July 1, 2009		16,585,319		16,585,319		16,535,319		50,000
Fund Balances, June 30, 2010	\$	13,392,975	\$	7,040,808	\$	14,943,815	\$	8,003,007

FULLERTON SCHOOL DISTRICT Schedule of Funding Progress For the Fiscal Year Ended June 30, 2010

			Actuarial					UAAL as a
Actuarial			Accrued	Ţ	Unfunded			Percentage of
Valuation	V	alue of	Liability		AAL	Funded	Covered	Covered
Date	4	Assets	(AAL)		(UAAL)	Ratio	Payroll	Payroll
July 1, 2007	\$	-	\$ 13,717,498	\$	13,717,498	0.0%	\$ 57,141,920	24.0%
July 1, 2009	\$	_	\$ 17,237,044	\$	17,237,044	0.0%	\$ 68,130,297	25.3%



FULLERTON SCHOOL DISTRICT Local Educational Agency Organization Structure June 30, 2010

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

BOARD OF TRUSTEES

Member	Office	Term Expires
Beverly Berryman	President	November 30, 2010
Ellen Ballard	Vice-President	November 30, 2010
Minard Duncan	Clerk	November 30, 2010
Hilda Sugarman	Member	November 30, 2012
Lynn Thornley	Member	November 30, 2012

DISTRICT ADMINISTRATORS

Mitch Hovey, Ed. D., Superintendent

Janet Morey, Assistant Superintendent, Educational Services

Mark Douglas, Assistant Superintendent, Personnel Services

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

FULLERTON SCHOOL DISTRICT Schedule of Average Daily Attendance For the Fiscal Year Ended June 30, 2010

	Second Period	Annual
	Report	Report
Elementary:		
Kindergarten	1,403	1,404
Grades 1 through 3	4,115	4,116
Grades 4 through 6	4,305	4,305
Grades 7 and 8	3,050	3,037
Home and hospital	3	4
Special education	325	326
Extended year	30	30
Total Average Daily Attendance	13,231	13,222

FULLERTON SCHOOL DISTRICT Schedule of Instructional Time For the Fiscal Year Ended June 30, 2010

	1982-83	3 Minutes	1986-87	Minutes	2009-2010	Number of Days		
Grade Level	Actual	Reduced*	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status	
Kindergarten	31,680	30,800	36,000	35,000	36,505	177	Complied	
Grade 1	40,480	39,356	50,400	49,000	51,654	177	Complied	
Grade 2	40,480	39,356	50,400	49,000	52,006	177	Complied	
Grade 3	40,480	39,356	50,400	49,000	52,006	177	Complied	
Grade 4	42,240	41,067	54,000	52,500	54,145	177	Complied	
Grade 5	42,240	41,067	54,000	52,500	54,145	177	Complied	
Grade 6	42,240	41,067	54,000	52,500	54,145	177	Complied	
Grade 7	60,896	59,204	54,000	52,500	60,525	177	Complied	
Grade 8	60,896	59,204	54,000	52,500	60,525	177	Complied	

 $^{^{\}ast}$ Amounts reduced as permitted by Education Code Section 46201.2 (a).

FULLERTON SCHOOL DISTRICT Schedule of Financial Trends and Analysis For the Fiscal Year Ended June 30, 2010

General Fund		(Budget) 2011 ²	2010	2009	 2008
Revenues and other financing sources	\$	95,724,069	\$ 98,118,000	\$ 111,065,498	\$ 110,731,860
Expenditures Other uses and transfers out		98,759,670 352,401	99,196,244 513,260	107,234,240 1,090,706	 108,846,200 1,642,644
Total outgo		99,112,071	 99,709,504	108,324,946	110,488,844
Change in fund balance (deficit)		(3,388,002)	 (1,591,504)	2,740,552	243,016
Ending fund balance	\$	11,605,813	\$ 14,943,815	\$ 16,535,319	\$ 13,844,767
Available reserves ¹	\$	7,759,089	\$ 8,620,603	\$ 1,808,231	\$ 7,874,380
Available reserves as a percentage of total outgo		7.8%	8.6%	1.7%	7.1%
Total long-term debt	\$	66,896,291	\$ 69,704,487	\$ 68,204,081	\$ 69,195,064
Average daily attendance at P-2	_	13,231	 13,231	 13,123	13,164

The General Fund balance has increased by \$1.1 million over the past two years. The fiscal year 2010-11 adopted budget projects a decrease of \$3.4 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). However, ABX4 2 approved by the Legislature and signed by the Governor on July 28, 2009, provides for flexibility in permitting the reserve level to be one-third of the percentage in 2009-10, or 1%. The District must make progress in 2010-11 towards returning to the original percentage.

The District has incurred operating deficits in only one of the past three years, and anticipates an operating deficit during the 2010-11 fiscal year. The total long-term debt has increased approximately \$0.5 million over the past two years.

Average daily attendance has increased by 67 over the past two years. There is no variance in ADA anticipated for the 2010-11 fiscal year.

See accompanying note to supplementary information.

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

² Revised Budget September 2010.

FULLERTON SCHOOL DISTRICT Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2010

	Federal	Pass-Through	F 1 1
Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Entity Identifying Number	Federal Expenditures
Federal Programs:	Number	Number	Experiantires
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Basic School Breakfast Program	10.553	13390	\$ 17,545
Especially Needed Breakfast Program	10.553	13526	278,195
National School Lunch Program	10.555	13391	2,415,067
Summer Food Program	10.559	13004	10,398
Child Care Food Program	10.558	13666	103,172
USDA - Donated Foods	10.555	N/A	241,522
Total U.S. Department of Agriculture	10.555	14/21	3,065,899
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Low Income and Neglected	84.010	13797	1,696,398
ARRA, Title I, Part A, Low Income and Neglected	84.389	15005	802,288
Title I, School Improvement Grant	84.377	14971	207,099
Title II, Part A, Teacher Quality	84.367	14341	684,676
Title II, Part D, Education Technology (Formula Grants)	84.318	14334	19,190
Title II, Part B, CA Math and Science Partnerships	84.366	14512	18,056
Title III, Immigrant Education	84.365	14346	63,202
Title III, Limited English Proficiency	84.365	10084	450,968
Title IV, Part A, Drug Free Schools	84.186	14347	37,696
Title V, Part A, Innovative Education Strategies	84.298	14354	12,529
Title X McKinney-Vento Homeless Assistance Grants	84.196	14332	37,785
ARRA Title X McKinney-Vento Homeless Assistance	84.687	15007	2,833
ARRA State Fiscal Stabilization Funds	84.394	24997	4,679,271
Education Gaps	84.184E	N/A	131,955
Individuals with Disabilities Education Act (IDEA):			
IDEA Basic Local Assistance Entitlement, Part B	84.027	13379	2,268,032
ARRA IDEA, Part B, Basic Local Assistance Entitlement	84.391	15003	1,147,864
IDEA Preschool Grants, Part B	84.173	13430	73,309
ARRA IDEA Part B, Preschool Grants	84.392	15000	59,514
IDEA Preschool Local Entitlement, Part B	84.027A	13682	191,625
ARRA IDEA Part B, Preschool Local Entitlement	84.391	15002	107,208
Total U.S. Department of Education			12,691,498
U.S. Department of Health & Human Services:			
Passed through California Dept of Education:			
Child Development Instructional Materials	93.575	00326	445
Passed through California Dept of Health Services:			
Medi-Cal Administrative Activities	93.778	10060	114,724
Medi-Cal Billing Option & Administrative Activities	93.778	10013	172,727
Total U.S. Department of Health & Human Services			287,896
Total Expenditures of Federal Awards			\$ 16,045,293
•			

See accompanying note to supplementary information.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

For the Fiscal Year Ended June 30, 2010

	Self-Insurance Fu		
June 30, 2010, annual financial and budget report (SACS) fund balance	\$	1,584,828	
Adjustments and reclassifications Increasing (decreasing) the total liabilities:			
Cash underreported		50,000	
IBNR overreported		208,587	
Net adjustments and reclassifications		258,587	
June 30, 2010, audited financial statement fund balance	\$	1,843,415	

Note to the Supplementary Information

June 30, 2010

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

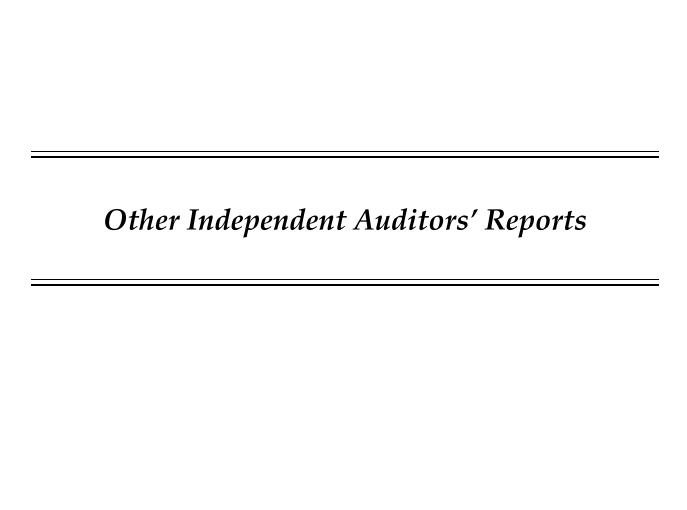
The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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





Board of Trustees Fullerton School District Fullerton, California

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

We have audited the financial statements of Fullerton School District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fullerton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of Fullerton School District in a separate letter dated October 20, 2010.

Fullerton School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

October 20, 2010

Nigro & Nigro, PC



Board of Trustees Fullerton School District Fullerton, California

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

Compliance

We have audited the compliance of Fullerton School District with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fullerton School District's management. Our responsibility is to express an opinion on Fullerton School District's compliance based on our audit.

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

In our opinion, Fullerton School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

October 20, 2010

Nigro & Nigro, PC



Board of Trustees Fullerton School District Fullerton, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Fullerton School District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies* 2009-2010, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

	Procedures in	Procedures
Description	Audit Guide	Performed
Attendance Accounting:	_	
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

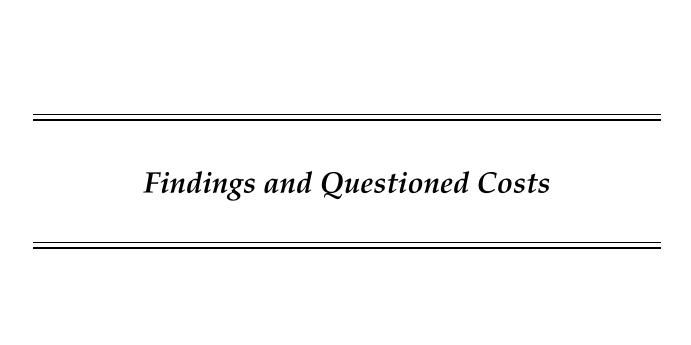
	Procedures in	Procedures
Description	Audit Guide	Performed
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

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

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

October 20, 2010

Nigro & Nigro, PC



FULLERTON SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements			
Type of auditors' report issued			nqualified
Internal control over fina			-
Material weakness(es) identified?			No
Significant deficiency(s) identified not considered			
to be material weaknesses?			Yes
Noncompliance material to financial statements noted?			No
Federal Awards			
Internal control over ma	jor programs:		
Material weakness(es) identified?		No
Significant deficiency	r(s) identified not considered		_
to be material weak	nesses?		No
Type of auditors' report	issued on compliance for	· ·	
major programs:		Uı	nqualified
Any audit findings disclosed that are required to be reported			
in accordance with Circular A-133, Section .510(a)		-	No
Identification of major p	rograms:		
CFDA Numbers	Name of Federal Program or Cluster		
84.394	State Fiscal Stabilization Fund		
84.365	Title III, Limited English Proficiency		
84.010, 84.389	Title I, Part A Cluster		
84.027, 84.391	Special Education Cluster (IDEA)		
	distinguish between Type A and	\$	481,359
Type B programs:	rick auditoo?	-	Yes
Auditee qualified as low	-risk auditee:		res
State Awards			
Internal control over stat	te programs:		
Material weakness(es) identified?			No
Significant deficiency(s) identified not considered			
to be material weaknesses?			No
Type of auditors' report issued on compliance for			
state programs:		Uı	nqualified

Section II – Financial Statement Findings

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

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

Finding 2010-1: Cafeteria Indirect Costs (60000)

Condition & Criteria: The District is allowed to charge no more than the lesser of the District approved indirect cost rate or the State's indirect cost rate. During the 2009-10 fiscal year, the District charged cafeteria indirect costs at the greater of the two rates, or an overage of \$47,131.

Recommendation: We recommend the District be cognizant of the indirect costs charged to the Cafeteria Fund in 2010-11 and that two times the amount improperly transferred to the General Fund be returned in the next fiscal year, as required by Education Code Section 38101(c).

District Response: The District's General Fund will reimburse cafeteria two times the amount that it was improperly charged for indirect cost in 2009-10 as required by EC 38101(c). The total amount will be \$94,262.

Section III - Federal Award Findings and Questioned Costs

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

There were no federal award findings or questioned costs in 2009-10.

Section IV – State Award Findings and Questioned Costs

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

There were no state award findings or questioned costs in 2009-10.

There were no findings or questioned costs in 2008-09.



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

Our audit of the financial statements of Fullerton School District (the District) as of and for the year ended June 30, 2010 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

During the course of performing our procedures, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated October 20, 2010, on the financial statements of Fullerton School District.

To the Board of Directors of Fullerton School District Page Two

Associated Student Body (ASB) Funds

Observation

Our testing over the associated student body at Parks Jr. High School discovered there was no evidence of a budget being adopted for the 2009-10 fiscal year.

Recommendation

A budget is an important tool to monitor the financial activities of the ASB. After preparation of an annual operating budget, the Student Council should adopt the budget and document it in the minutes.

Observation

During our testing over the associated student body at Nicolas Jr. High, Parks Jr. High, Ladera Vista Jr. High and Pacific Drive Elementary, we noted deposits that were not made in a timely manner.

Recommendation

At a minimum, deposits to the ASB bank account should be made weekly, though within two to three school days is preferable. Money should never be left at a school over the weekend or holidays because many thefts occur during those times.

Observation

During our testing over the associated student body at Richmond Elementary, we noted that one deposit was made, but the deposit amount could not be reconciled to supporting documentation.

Recommendation

We recommend that the site utilize a tally log or maintain a list of all students in order to reconcile the amount received from each student.

Observation

During our testing over the associated student body at Ladera Vista Jr. High, we noted that the school site used the ASB account as a pass-through account, making a deposit of lost book fees into ASB and then later forwarding that amount to the District Office.

Recommendation

ASB accounts are not and should not be used as a pass-through or clearing account. Money should only be deposited into ASB accounts if it is ASB funds and will be used for appropriate ASB purposes.

To the Board of Directors of Fullerton School District Page Three

Inventory

Observation

During the inventory count for the Food Services warehouse, we noted only one warehouse technician performing the inventory count. Any discrepancies are recounted be the same employee.

Recommendation

We recommend that after the initial inventory count, the District utilize another employee to perform the second inventory count. This will help reduce the risk of inventory discrepancies.

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

Nigro & Nigro, Pc October 20, 2010