FULLERTON
SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2011

FULLERTON SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2011
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NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Fullerton School District
Fullerton, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2011, 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, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of Fullerton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 and the required supplementary information on pages 53 and 54 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, which consisted 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.

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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

December 13, 2011

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Fullerton School District is a large suburban school district offering instruction to students from kindergarten through eighth grade, including programs for preschool and special education. During the 2010-11 school year, the District operated fifteen elementary schools, two K-8 schools, and three junior high schools, on the traditional September through June schedule, for the instruction of approximately 13,665 students .

MISSION STATEMENT

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

Focusing on Excellence

Student Learning

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

Curriculum and Assessment

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

Budget and Resources

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

Staffing

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

Parents and Community

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

Staff Development

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

MISSION STATEMENT (continued)

Technology

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

Leadership

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

Facilities

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

FINANCIAL HIGHLIGHTS

Districtwide Financial Statements

- The District's financial status increased from the prior year as net assets increased $3.4 million to $73.3 million. The major components of this change were an increase to accounts receivable, due to amounts owed from the State for Revenue Limit, and an increase in cash due to the receipt of funds from the Federal Jobs Grant. These funds will be spent in fiscal 2012.
- Overall revenues increased $4.6 million, to $114.6 million. This increase was primarily made up of the restoration by the State of the one-time $252 per student cut imposed on the District in 2009-10.
- Overall expenditures decreased $6.3 million, to $111.3 million. This decrease was primarily due to cost savings from the implementation of furlough days by the District and its employee associations.
- Total District-wide expenses were $111.3 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was $83.8 million.
- The District decreased its outstanding long-term debt $1.7 million or 2.4%. This decrease was primarily due to issuing a general obligation refunding bond, offset by principal payments made.

General Fund Financial Statements

- The District's General Fund recorded a net increase to the ending Fund Balance for the year. Actual results were better than the revised operating budget for the year.
- Revenues of $101.3 million ($77.2 million Unrestricted, $24.1 million Restricted) were received.
- Expenditures of $97.0 million ($66.0 million Unrestricted, $30.8 million Restricted) were made.
- Net interfund transfers out of $1.1 million were made.
- The net result of operations was an increase to the ending fund balance of $3.3 million. This was made up of a net increase of $3.3 million in the Unrestricted Fund, and no change to net assets in the Restricted Fund.

FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)
This provided the District with a General Fund ending balance of $18.3 million. This was comprised of:

Reserved Amounts	$	1,731,257
Legally Restricted Balances		2,186,780
Board Designated		3,222,962
Designated for Economic Uncertainties		11,207,814
TOTAL	$	18,348,813

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

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

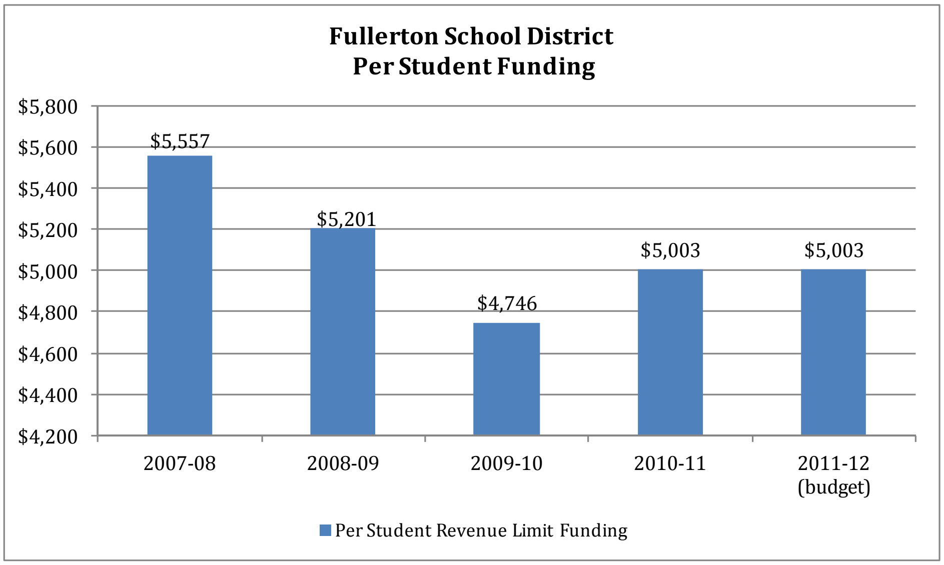
The District's per student base revenue limit (net of any State applied deficit) for the past four years, and the estimated revenue limit for the current year, is as follows:

2007-08	$5,557
2008-09	$5,201
2009-10	$4,745
2010-11	$5,003
2011-12*	$5,003

* Current budgeted amount. The State in the past has adjusted the base revenue limit amount with a mid-year cut.

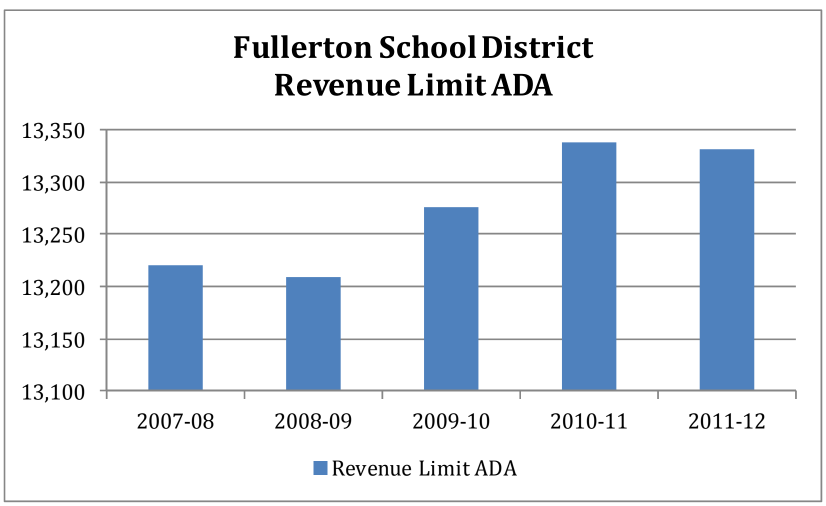
FINANCIAL HIGHLIGHTS (continued)

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



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

2007-08	13,220
2008-09	13,209
2009-10	13,276
2010-11	13,338
2011-12 (est.)	13,330



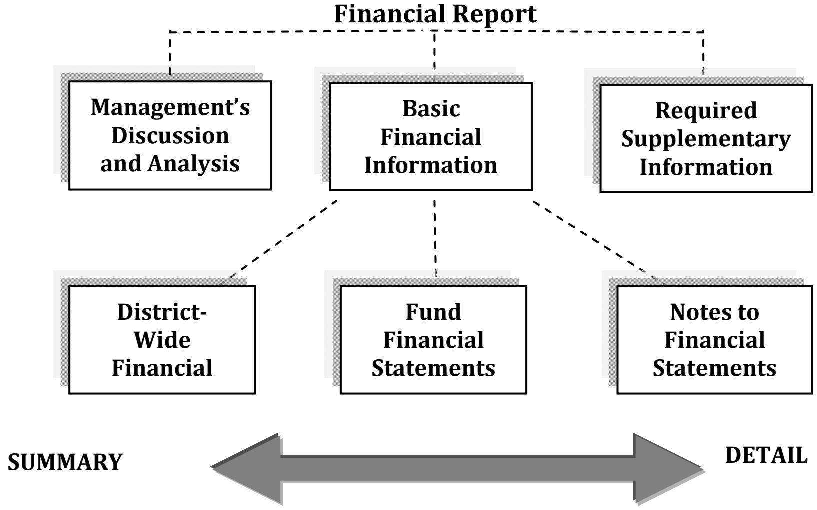
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

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

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

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

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

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

The District has three kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

Fund Financial Statements (continued)

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

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were higher on June 30, 2011, than they were the year before – increasing 3.4% to $73.3 million. (See Table A-1.)

Table A-1

	Governmental Activities		Variance Increase
	2011	**2010**	**(Decrease)**
Current assets	$ 59,278,101	$ 45,101,436	$ 14,176,665
Capital assets	101,854,454	105,548,211	(3,693,757)
Total assets	161,132,555	150,649,647	10,482,908
Current liabilities	19,861,023	11,047,862	8,813,161
Long-term liabilities	68,009,423	69,704,487	(1,695,064)
Total liabilities	87,870,446	80,752,349	7,118,097
Net assets			
Invested in capital assets,			
net of related debt	45,257,318	47,000,015	(1,742,697)
Restricted	8,516,759	8,136,088	380,671
Unrestricted	19,488,032	14,761,195	4,726,837
Total net assets	$ 73,262,109	$ 69,897,298	$ 3,364,811

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues increased 4.2% to $114.6 million (See Table A-2). The increase is due primarily to revenue limit, federal and state categorical funding.

The total cost of all programs and services decreased 5.4% to $111.3 million. The District's expenses are predominantly related to educating and caring for students, 81.0%. The purely administrative activities of the District accounted for just 4.2% of total costs. A significant contributor to the decrease in costs was the District's implementation of furlough days for all employees in fiscal 2011.

Table A-2

	Governmental Activities		Variance Increase
	2011	**2010**	**(Decrease)**
Total Revenues	$ 114,634,619	$ 110,041,342	$ 4,593,277
Total Expenses	111,269,808	117,604,400	(6,334,592)
Increase (decrease) in net assets	$ 3,364,811	$ (7,563,058)	$ 10,927,869

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 $38.3 million, which is above last year's ending fund balance of $33.2 million. The primary cause of the increased fund balance is an increase in cash and accounts receivable, offset by an increase to current loans.

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 $8.6 million primarily to reflect revenue limit and federal and state budget actions
- Other books and supplies expenses – increased $2.0 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the General Fund anticipated revenues would exceed expenditures by about $1.0 million, the actual results for the year show that revenues exceeded expenditures by roughly $4.4 million. Actual revenues were $1.1 million less than anticipated, but expenditures were $4.6 million less than budgeted. The expenditures amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2011 that will be carried over into the 2011-12 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2010-11 the District invested over $1.1 million in new capital assets. (More detailed information about the District's capital assets is presented in Note 6 to the financial statements).

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

	Governmental Activities		Variance Increase
	2011	2010	(Decrease)
Land	$ 9,198,655	$ 9,198,655	$ -
Improvement of sites	-	7,688	(7,688)
Buildings and improvements	83,232,757	87,190,867	(3,958,110)
Machinery and equipment	9,423,042	9,151,001	272,041
Total	$ 101,854,454	$ 105,548,211	$ (3,693,757)

Long-Term Debt

At year-end the District had $68.0 million in general obligation bonds, special tax bonds, certificates of participation, loans, capital leases and employment benefits – a net decrease of 2.4% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance Increase
	2011	2010	(Decrease)
General obligation bonds	$ 45,753,270	$ 46,601,643	$ (848,373)
Special tax bonds	8,345,951	8,543,099	(197,148)
Certificates of participation	6,670,000	6,900,000	(230,000)
Loans	440,442	803,608	(363,166)
Capital leases	835,384	1,375,845	(540,461)
Early retirement incentives	1,774,493	2,218,116	(443,623)
Compensated absences	1,280,573	1,191,499	89,074
Other postemployment benefits	2,909,310	2,070,677	838,633
Total	$ 68,009,423	$ 69,704,487	$ (1,695,064)

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the *2011-12 Budget Act* on June 30, 2011. The Legislature passed three iterations of the budget bill—one in March and two in June— all using the new majority-vote provision contained in Proposition 25 (an initiative adopted by voters in November 2010). The March version was not sent to the Governor, the first June version was vetoed, and the third budget bill was eventually signed. The Legislature also sent a number of budget related trailer bills to the Governor in both March and June.

Proposition 98

Proposition 98 funding constitutes about 70 percent of total funding for K-12 education. Since the adoption of the *2010-11 Budget Act*, Proposition 98 spending for 2010-11 increased by a net of $129 million. The cut to basic aid school districts, adopted in March 2011, reduced categorical funding for basic aid districts by an amount equivalent to an 8.9 percent revenue limit reduction. This reduction is equivalent to the base revenue limit reductions that apply to non-basic aid school districts. The reduction (for both basic aid and non-basic aid districts) is maintained in 2011-12. Total K-12 education funding remains relatively flat from 2010-11 to 2011-12. The share covered by local property taxes, however, is significantly higher (largely due to estimated redevelopment agency remittance payments) whereas the share covered by the General Fund is lower.

The 2011-12 budget package includes various "trigger" reductions that would be implemented if estimates of state revenues as of December 2011 are more than $1 billion lower than budget assumptions, with additional reductions triggered if revenues fall more than $2 billion below budget assumptions.

If Revenues Fall Somewhat Short of Projections, Certain Community College and Child Care Cuts Triggered. If revenue estimates are $1 billion to $2 billion below budget assumptions, the state would reduce community college apportionments by $30 million and implement a 4 percent across-the-board reduction to child care programs, for savings of $23 million. If the reductions were triggered, the state also would implement a $10 per-unit increase on community college fees. The additional revenues from the fee increase would offset the effects of the apportionment reduction on community colleges.

If Revenues Fall Further Below Projections, Certain K-12 Cuts and Additional CCC Cuts Also Triggered. If revised revenue estimates are more than $2 billion below budget assumptions, up to $1.9 billion in additional K-12 and community college reductions would be triggered. The K-12 revenue limits would be reduced based on a sliding scale, in proportion to the size of the General Fund shortfall. The revenue limit reductions would be capped at $1.5 billion—associated with revenue estimates falling $4 billion or more below budget assumptions. Funding for the Home-to-School Transportation program also would be eliminated effective January 2012 (for half-year savings of $248 million), and community college apportionments would be further reduced by $72 million.

K-12 Trigger Also Includes Shorter School Year Provisions. If revised revenue estimates fall $2 billion below budget estimates, the state also would allow K-12 schools to reduce the school year by an additional seven days in 2011-12. Any reductions in instructional time and accompanying reductions in salaries or benefits, however, would need to be achieved by school districts through the collective bargaining process.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The budget package continues the state's reliance on payment deferrals to achieve budget solution, deferring an additional $2.1 billion in K-12 payments and $129 million in CCC payments from 2011-12 to 2012-13. Proposition 98 payment deferrals now total $10.4 billion. As a result of these deferrals, 20 percent of funding for Proposition 98-supported programs in 2011-12 will not be paid until 2012-13. In essence, the first $10 billion in Proposition 98 funding for 2012-13 will pay for services that schools and community colleges will have already provided in 2011-12.

Revenue Limit "Deficit Factor" Still Growing. The state's existing obligation for K-12 revenue limits is also growing. When the state has made a base reduction to K-12 revenue limits and/or has not provided an annual cost-of-living adjustment (COLA), it has chosen to create a deficit factor. In essence, the deficit factor reflects a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the base reductions and foregone COLAs that have occurred over the last four years. Cumulative base revenue limit reductions and foregone revenue limit COLAs total $8 billion in 2011-12—$7.9 billion for school districts (resulting in a deficit factor of 19.8 percent) and $144 million for county offices of education (resulting in a deficit factor of 20 percent).

Mandate Backlog Still Growing. The state's existing backlog of K-14 mandate claims also continues to increase. Although the budget provides $90 million for the ongoing cost of K-14 mandates, 2011-12 costs are projected to be $180 million. This underfunding, when coupled with an already large backlog, leaves the state at the end of 2011-12 with $3.8 billion in unpaid claims.

K-12 Education
Per-pupil programmatic funding decreased by $117 from 2010-11 to 2011-12, reflecting a 1.5 percent year-over-year reduction. School districts will receive $522 less per pupil in 2011-12 than in 2007-08. The year-to-year reduction in K-12 programmatic funding is primarily due to the loss of one-time federal funds. Schools in California received $6 billion in American Recovery and Reinvestment Act (ARRA) funding that could be spent in 2008-09, 2009-10, and 2010-11. School districts will have exhausted these revenues, however, by 2011-12. Many school districts will still have funding available from the federal Education Jobs and Medicaid Assistance Act of 2010, which provided California schools with $1.2 billion in one-time federal funding to retain school staff and reduce teacher layoffs. These funds, however, are not sufficient to entirely offset the loss of ARRA funding.

The budget package also includes several budget provisions that affect school district financial management and administration.

State Prohibits Districts From Using Summer Layoff Window. The budget package suspends existing law that allows school districts to lay off teachers during the period between five days after the budget is enacted and August 15 if school district revenue limits in the enacted budget do not increase by at least 2 percent. Given that the budget package includes no increases to K-12 revenue limits, the law would have been operative in 2011.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

State Requires Districts to Build Budgets Assuming Flat Year-Over-Year Revenues. The budget package also requires school districts to project the same level of per-pupil funding in 2011-12 as they received in 2010-11 and to maintain staffing and program levels commensurate with those funding levels. The Governor's signing message for the education trailer bill, however, emphasizes that school districts might still need to make reductions due to cost increases, the loss of federal funds, declining enrollment, or other factors. The signing message also states that the law was not intended to interfere with these local school board decisions.

State Suspends Requirement for Districts to Demonstrate Multiyear Solvency. The budget package also temporarily modifies the approval process for school district budgets. Under current law, the county superintendent is required to review and approve a school district's budget to ensure the district can meet its financial obligations in that fiscal year and has a financial plan to satisfy its obligations for the two subsequent years. In 2011-12, a county superintendent would be unable to disapprove a school district's budget based on the district's inability to meet its financial obligations in 2012-13 and 2013-14.

Governor Vetoes Funding for Longitudinal Teacher Data System. The Governor vetoed $2.1 million in federal funds and $84,000 in special funds for the California Longitudinal Teacher Integrated Education Data System. Authorized by 2006 legislation, this information system was intended to help the state identify teacher workforce trends; assess future teacher workforce needs; analyze the effectiveness of teacher recruitment, retention, and support programs; and develop related state policies. The Governor's veto leaves no funding for the project in 2011-12 and ends further development of the system.

State Grants Flexibility for Two Additional Years. The March 2011 education trailer bill extends by two additional years most of the flexibility options that the state originally granted to school districts in the February 2009 budget package (including options related to K-3 Class Size Reduction, other categorical programs, and shortened school year).

All of these factors were considered in preparing the Fullerton School District budget for the 2011-12 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 Susan Cross Hume, CPA, CIA, Assistant Superintendent, Business Services at (714) 447-7412.

ASSETS	Total Governmental Activities
Current assets:	
Cash	$ 36,603,806
Investments	2,765,663
Accounts receivable	17,837,452
Inventories	171,518
Prepaid expenditures	1,899,662
Total current assets	59,278,101
Capital assets:	
Land	9,198,655
Improvement of sites	16,447,782
Buildings and improvements	123,717,317
Machinery and equipment	18,521,392
Less accumulated depreciation	(66,030,692)
Total capital assets	101,854,454
Total assets	161,132,555
LIABILITIES	
Current liabilities:	
Accounts payable and current liabilities	10,359,090
TRAN payable	5,000,000
Deferred revenues	4,501,933
Total current liabilities	19,861,023
Long-term liabilities:	
Portion due or payable within one year	2,137,921
Portion due or payable after one year	65,871,502
Total long-term liabilities	68,009,423
Total liabilities	87,870,446
NET ASSETS	
Invested in capital assets, net of related debt	45,257,318
Restricted for:	
Capital projects	3,234,612
Debt service	3,095,367
Categorical programs	2,186,780
Unrestricted	19,488,032
Total Net Assets	$ 73,262,109

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

FULLERTON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities				
Instructional Services:				
Instruction	$ 68,900,664	$ 165,520	$ 16,345,144	$ (52,390,000)
Instruction-Related Services:				
Supervision of instruction	2,374,696	14,386	1,570,433	(789,877)
Instructional library, media and technology	2,023,504	23	159,018	(1,864,463)
School site administration	7,534,284	1,663	854,696	(6,677,925)
Pupil Support Services:				
Home-to-school transportation	1,887,543	69,549	1,000,730	(817,264)
Food services	4,193,256	-	3,353,142	(840,114)
All other pupil services	3,264,673	17,728	1,775,016	(1,471,929)
General Administration Services:				
Other general administration	4,627,355	419	489,460	(4,137,476)
Plant services	8,547,821	4,134	175,075	(8,368,612)
Interest on long-term debt	2,853,752	-	-	(2,853,752)
Other outgo	246,611	58,136	1,459,564	1,271,089
Depreciation (unallocated)	4,815,649	-	-	(4,815,649)
Total Governmental Activities	$ 111,269,808	$ 331,558	$ 27,182,278	(83,755,972)

General Revenues:	
Property taxes	35,867,189
Federal and state aid not restricted to specific purpose	46,966,565
Interest and investment earnings	304,858
Miscellaneous	3,982,171
Total general revenues	87,120,783
Change in net assets	3,364,811
Net assets - July 1, 2010	69,897,298
Net assets - June 30, 2011	$ 73,262,109

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

FULLERTON SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2011

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 22,970,456	$ 10,553,322	$ 33,523,778
Investments	-	2,765,663	2,765,663
Accounts receivable	17,035,866	750,083	17,785,949
Due from other funds	119,059	40,594	159,653
Inventories	105,408	66,110	171,518
Prepaid expenditures	1,525,849	7,031	1,532,880
Total Assets	$ 41,756,638	$ 14,182,803	$ 55,939,441
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 6,420,331	$ 1,522,182	$ 7,942,513
TRAN Payable	5,000,000	-	5,000,000
Due to other funds	94,372	110,354	204,726
Deferred revenue	3,098,393	1,384,345	4,482,738
Total Liabilities	14,613,096	3,016,881	17,629,977
Fund Balances			
Nonspendable	1,731,257	73,961	1,805,218
Restricted	2,186,780	9,355,156	11,541,936
Assigned	12,017,690	1,736,805	13,754,495
Unassigned	11,207,815	-	11,207,815
Total Fund Balances	27,143,542	11,165,922	38,309,464
Total Liabilities and Fund Balances	$ 41,756,638	$ 14,182,803	$ 55,939,441

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

FULLERTON SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds			$ 38,309,464
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The net of capital assets and depreciation at year-end is:			
	Capital assets at historical cost	$ 167,885,146	
	Accumulated depreciation	(66,030,692)	
	Net:		101,854,454
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(980,800)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:			366,782
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements. Long-term liabilities at year-end consist of:			
	General obligation bonds payable	$ 45,753,270	
	Special tax bonds payable	8,345,951	
	Certificates of participation payable	6,670,000	
	Fullerton RDA loan payable	440,442	
	Capital leases payable	835,384	
	Early retirement incentive	1,774,493	
	Compensated absences payable	1,280,573	
	Other postemployment benefits payable	2,909,310	(68,009,423)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:			1,721,632
Total net assets - governmental activities			$ 73,262,109

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

FULLERTON SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2011

REVENUES	General Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:			
Property taxes	$ 31,160,182	$ 4,707,007	$ 35,867,189
Federal and state aid not restricted to specific purpose	46,860,706	105,859	46,966,565
Earnings on investments	263,758	41,100	304,858
Miscellaneous	832,518	3,149,653	3,982,171
Program Revenues:			
Charges for services	331,558	-	331,558
Operating grants and contributions	22,320,105	4,862,173	27,182,278
Total Revenues	101,768,827	12,865,792	114,634,619
EXPENDITURES			
Instructional Services:			
Instruction	66,242,625	2,328,225	68,570,850
Instruction-Related Services:			
Supervision of instruction	2,356,379	-	2,356,379
Instructional library, media and technology	1,927,009	-	1,927,009
School site administration	7,099,146	389,015	7,488,161
Pupil Support Services:			
Home-to-school transportation	1,839,604	-	1,839,604
Food services	-	4,456,993	4,456,993
All other pupil services	3,258,924	-	3,258,924
General Administration Services:			
Other general administration	4,695,511	143,639	4,839,150
Plant services	7,788,006	80,697	7,868,703
Facility acquisition and construction	142,316	992,641	1,134,957
Other outgo:			
Transfers between agencies	749,444	-	749,444
Debt service - issuance costs	-	389,721	389,721
Debt service - principal	619,653	2,132,730	2,752,383
Debt service - interest	322,301	2,015,747	2,338,048
Total Expenditures	97,040,918	12,929,408	109,970,326
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,727,909	(63,616)	4,664,293
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	33,000	420,638	453,638
Interfund transfers out	(412,132)	(41,506)	(453,638)
Proceeds from refunding bond	-	27,645,000	27,645,000
Premium on refunding bond	-	2,960,552	2,960,552
Proceeds from capital lease	-	26,160	26,160
Transfer to escrow agent for defeased debt	-	(30,260,399)	(30,260,399)
Total Other Financing Sources and Uses	(379,132)	750,445	371,313
Net Change in Fund Balances	4,348,777	686,829	5,035,606
Fund Balances, July 1, 2010, as originally stated	14,943,815	18,280,043	33,223,858
Adjustments for Restatement	7,850,950	(7,800,950)	50,000
Fund Balances, July 1, 2010, as restated	22,794,765	10,479,093	33,273,858
Fund Balances, June 30, 2011	$ 27,143,542	$ 11,165,922	$ 38,309,464

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

Total net change in fund balances - governmental funds		$ 5,035,606
Amounts reported for governmental *activities* in the statement of activities are different because:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	1,121,892	
Depreciation expense	(4,815,649)	
Net:		(3,693,757)
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:		31,336,935
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred charges on the refunding and are amortized to interest expense over the life of the liability.		1,675,847
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:		(27,671,160)
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:		(2,775,141)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, the issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:		
Issue costs incurred during the period	389,721	
Issue costs amortized for the period	(22,939)	
Net:		366,782
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:		(387,333)
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:		(838,633)
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:		32,899
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 paid by:		354,549
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.		(71,783)
Change in net assets of governmental activities		$ 3,364,811

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

FULLERTON SCHOOL DISTRICT

Statement of Net Assets – Proprietary Funds

June 30, 2011

		Governmental Activities
		Internal Service Fund
ASSETS		
Cash	$	3,080,028
Accounts receivable		51,503
Due from other funds		55,184
Total assets		3,186,715
LIABILITIES		
Accounts payable and accrued liabilities		60,232
Estimated liability for open claims and IBNR		1,375,545
Due to other funds		10,111
Deferred revenues		19,195
Total liabilities		1,465,083
NET ASSETS		
Unrestricted		1,721,632
Total net assets	$	1,721,632

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

FULLERTON SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 1,342,545
Other fees and contracts	75,972
Total operating revenues	1,418,517
OPERATING EXPENSES	
Classified salaries	74,678
Employee benefits	26,751
Books and supplies	98,779
Services and other operating expenditures	1,309,208
Total operating expenses	1,509,416
Operating Income (Loss)	(90,899)
NON-OPERATING REVENUES	
Interest income	19,116
Change in Net Assets	(71,783)
Net Assets, July 1, 2010, as originally stated	1,843,415
Adjustment for Restatement	(50,000)
Net Assets, July 1, 2010, as restated	1,793,415
Net Assets, June 30, 2011	$ 1,721,632

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

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from self-insurance premiums	$ 1,342,444
Cash received from other sources	72,289
Cash paid for operating expenses	(1,499,165)
Net cash provided (used) by operating activities	(84,432)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	19,458
Net cash provided (used) by investing activities	19,458
Net decrease in cash	(64,974)
Cash, July 1, 2010, as originally stated	3,195,002
Adjustment for restatement	(50,000)
Cash, July 1, 2010, as restated	3,145,002
Cash, June 30, 2011	$ 3,080,028
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (90,899)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(101)
Increase in due from other funds	(3,683)
Decrease in accounts payable and current liabilities	(17,708)
Increase in due to other funds	8,764
Increase in deferred revenues	19,195
Net cash provided (used) by operating activities	$ (84,432)

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

FULLERTON SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2011

	Agency Funds
	Student Body Funds
Assets	
Cash	$ 274,243
Total Assets	$ 274,243
Liabilities	
Due to student groups	$ 274,243
Total Liabilities	$ 274,243

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

Fullerton School District Capital Facilities Corporation

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

Community Facilities Districts

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

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.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions

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

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

Deferred revenue

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

Expenses/expenditures

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

E. Fund Accounting

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

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

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

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

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

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

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

Special Revenue Funds:

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

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

Capital Projects Funds:

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

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

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

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

Debt Service Fund:

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

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

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

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

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

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

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

H. Assets, Liabilities, and Equity

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

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

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

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

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

4. Deferred Revenue

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

5. Compensated Absences

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

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

6. Long-Term Obligations

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

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

7. Fund Balance Classifications

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

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

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

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

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

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

8. Net Assets

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

L. New GASB Pronouncements
During the 2010-11 fiscal year, the following GASB Pronouncements became effective for the District:

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*: The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. More information about this Statement is reported in Note 1.H.7.

GASB Statement No.59, *Financial Instruments Omnibus*: The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is not expected to significantly impact the District.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are reported at fair value and consisted of the following:

		Governmental Activities			
	Rating	Governmental Funds	Proprietary Fund	Total	Fiduciary Funds
Pooled Funds:					
Cash in County Treasury		$ 26,644,759	$ 3,005,028	$ 29,649,787	$ -
Cash in County Treasury - TRANs Pool		5,099,688	-	5,099,688	-
Total Pooled Funds		31,744,447	3,005,028	34,749,475	-
Deposits:					
Cash on hand and in banks		1,678,511	-	1,678,511	274,243
Cash in revolving fund		100,820	75,000	175,820	-
Total Deposits		1,779,331	75,000	1,854,331	274,243
Total Cash		$ 33,523,778	$ 3,080,028	$ 36,603,806	$ 274,243
Investments:					
U.S. Bank First American Treasury Oblig.	A-1+	$ 2,765,663	$ -	$ 2,765,663	$ -

Investment security ratings reported as of June 30, 2011 are defined by Standard and Poors.

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2011, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, cash balances held in banks and revolving funds are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, $1,455,889 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2011 consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank First American Treasury Oblig.	$ 2,765,663	$ 2,765,663	$ -

Investments - Credit Risk
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2011, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had the following investments that represents more than five percent of the District's net investments.

U.S. Bank First American Treasury Oblig.	100%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 consist of the following:

	General Fund	Non-Major Governmental Funds	Totals	Proprietary Fund
Federal Government:				
Categorical aid programs	1,376,268	$ 637,863	$ 2,014,131	$ -
State Government:				
Revenue limit	10,294,233	-	10,294,233	-
Lottery	921,015	-	921,015	-
Categorical aid programs	2,743,485	44,234	2,787,719	-
Local:				-
Interest	11,684	8,142	19,826	2,326
Miscellaneous	1,689,181	59,844	1,749,025	49,177
Total	$ 17,035,866	$ 750,083	$ 17,785,949	$ 51,503

NOTE 4 - INTERFUND TRANSACTIONS

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

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2011 are as follows:

	Due From Other Funds			
	General Fund	Non-Major Governmental Funds	Proprietary Fund	Total
General Fund	$ -	$ 40,594	$ 53,778	$ 94,372
Non-Major Governmental Funds	108,948	-	1,406	110,354
Proprietary Fund	10,111	-	-	10,111
Total	$ 119,059	$ 40,594	$ 55,184	$ 214,837

General Fund due to Child Development Fund for salary, benefits, and program costs	$ 40,594
General Fund due to Self Insurance Fund for vehicle insurance and workers compensation costs	53,778
Child Development Fund due to General Fund for payroll, program and indirect costs	69,172
Child Development Fund due to Self Insurance Fund for salary and payroll costs	1,344
Building Fund due to General Fund for modernization costs	38,536
Capital Facilities Fund due to General Fund for salary and payroll costs	1,240
Capital Facilities Fund due to Self Insurance Fund for salary and payroll costs	62
Self Insurance Fund due to General Fund for claims, payoll and invoice costs	10,111
Total	$ 214,837

B. Interfund Transfers

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

Interfund transfers for the 2010-11 fiscal year were as follows:

	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 412,132	$ 412,132
Non-Major Governmental Funds	33,000	8,506	41,506
Total	$ 33,000	$ 420,638	$ 453,638

Building Fund to General Fund for support of the Inter-baccalaureate program at Beechwood School	$ 33,000
General Fund to Building Fund for laptop revenues	412,132
Special Reserve for Capital Outlay Projects to Building Fund for debt service payment	8,506
Total	$ 453,638

NOTE 5 – FUND BALANCES

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

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

At June 30, 2011, fund balances of the District's governmental funds are classified as follows:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable:			
Revolving cash	$ 100,000	$ 820	$ 100,820
Stores inventories	105,408	66,110	171,518
Prepaid expenditures	1,525,849	7,031	1,532,880
Total Nonspendable	1,731,257	73,961	1,805,218
Restricted:			
Categorical programs	2,186,780	-	2,186,780
Capital projects	-	6,259,789	6,259,789
Debt service	-	3,095,367	3,095,367
Total Restricted	2,186,780	9,355,156	11,541,936
Assigned:			
Reserve for FTE's	450,000	-	450,000
Supplementary retirement plan	1,774,492	-	1,774,492
Saturday school attendance sites 099	43,559	-	43,559
School based coord program 304	166,736	-	166,736
Peer assistance review 306	20,779	-	20,779
PE teacher incentive grant 341	30,713	-	30,713
School safety 352	35,430	-	35,430
Teacher credentialing 355	5,393	-	5,393
Instructional materials K-8 380	336,258	-	336,258
Candidate subsidy reimb 518	1,664	-	1,664
Saturday school attendance central	187,820	-	187,820
School site labs 102	77,017	-	77,017
Educational services carryover	93,100	-	93,100
Child Development Fund	-	593,476	593,476
Food Service Fund	-	1,143,329	1,143,329
Deferred Maintenance Fund	2,563,191	-	2,563,191
Other Designations	4,373,057	-	4,373,057
Other postemployment benefits	1,858,481	-	1,858,481
Total Assigned	12,017,690	1,736,805	13,754,495
Unassigned:			
Reserve for economic uncertainties	11,207,815	-	11,207,815
Total Unassigned	11,207,815	-	11,207,815
Total	$ 27,143,542	$ 11,165,922	$ 38,309,464

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 9,198,655	$ -	$ -	$ 9,198,655
Total capital assets not being depreciated	9,198,655	-	-	9,198,655
Capital assets being depreciated:				
Improvement of sites	16,447,782	-	-	16,447,782
Buildings and improvements	123,182,161	535,156	-	123,717,317
Machinery and equipment	18,324,758	586,736	390,102	18,521,392
Total capital assets being depreciated	157,954,701	1,121,892	390,102	158,686,491
Accumulated depreciation for:				
Improvement of sites	(16,440,094)	(7,688)	-	(16,447,782)
Buildings and improvements	(35,991,294)	(4,493,266)	-	(40,484,560)
Machinery and equipment	(9,173,757)	(314,695)	(390,102)	(9,098,350)
Total accumulated depreciation	(61,605,145)	(4,815,649)	(390,102)	(66,030,692)
Total capital assets being depreciated, net	96,349,556	(3,693,757)	-	92,655,799
Governmental activity capital assets, net	$ 105,548,211	$ (3,693,757)	$ -	$ 101,854,454

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below.

	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2010	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	$ 44,095,458	$ 27,645,000	$ 29,980,000	$ 41,760,458	$ 2,220,000
Accreted interest	2,337,265	387,333	-	2,724,598	-
Deferred charges on refunding	-	(1,675,847)	-	(1,675,847)	(1,675,847)
Unamortized issuance premium	168,920	2,960,552	185,411	2,944,061	185,411
Total General Obligation Bonds	46,601,643	29,317,038	30,165,411	45,753,270	729,564
Special Tax Bonds:					
CFD 2000-1	693,028	-	16,345	676,683	19,614
CFD 2001-1	7,850,071	-	180,803	7,669,268	189,958
Total Special Tax Bonds	8,543,099	-	197,148	8,345,951	209,572
Certificates of Participation	6,900,000	-	230,000	6,670,000	240,000
Energy Loan	363,166	-	363,166	-	-
Fullerton RDA Loan	440,442	-	-	440,442	31,460
Capital Leases	1,375,845	26,160	566,621	835,384	483,702
Early Retirement Incentive	2,218,116	-	443,623	1,774,493	443,623
Compensated Absences	1,191,499	89,074	-	1,280,573	-
Other Postemployment Benefits	2,070,677	838,633	-	2,909,310	-
Totals	$ 69,704,487	$ 30,270,905	$ 31,965,969	$ 68,009,423	$ 2,137,921

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

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

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, 2011, the outstanding balance on the bonds was $5,805,458, in addition to $7,724,598 of accreted interest on the capital appreciation bonds.

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, 2011, $8,310,000 was outstanding.

2011 General Obligation Refunding Bonds

On December 1, 2010, the District issued $27,645,000 of 2010 General Obligation Refunding Bonds. The bonds consist of serial bonds bearing fixed rates ranging from 2.0 to 5.0 percent with annual maturities from August 2011 through August 2026. The net proceeds of $30,215,831 (after issuance costs of $389,721, plus premium of $2,960,552) were used to advance refund $27,645,000 of the District's outstanding Election of 2002, Series A General Obligation Bonds, in addition to paying the costs of issuance associated with the refunding bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on the refunding on the statement of net assets and are amortized to interest expense over the life of the liability.

Deferred charges on the refunding of $1,675,847 remain to be amortized. As of June 30, 2011 the principal balance outstanding on the defeased debt amounted to $27,645,000. Subsequent to the close of the fiscal year, the entire principal balance outstanding on the defeased debt was paid off.

The refunding decreased the District's total debt service payments by $3,084,073. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of $2,495,697.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2011 are as follows:

Fiscal Year	Principal	Interest	Total
2011-12	$ 2,220,000	$ 2,606,433	$ 4,826,433
2012-13	1,735,000	1,530,081	3,265,081
2013-14	1,895,000	1,474,031	3,369,031
2014-15	2,070,000	1,412,981	3,482,981
2015-16	2,265,000	1,329,581	3,594,581
2016-21	12,982,188	7,708,410	20,690,598
2021-26	13,748,270	10,824,124	24,572,394
2026-27	4,845,000	224,213	5,069,213
Total	$ 41,760,458	$ 27,109,854	$ 68,870,312

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, 2011, the outstanding balance of the certificates was $6,670,000.

As of June 30, 2011, the annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2011-12	$ 240,000	$ 325,798	$ 565,798
2012-13	255,000	314,998	569,998
2013-14	265,000	303,268	568,268
2014-15	275,000	290,813	565,813
2015-16	290,000	277,750	567,750
2016-21	1,675,000	1,167,875	2,842,875
2021-26	2,125,000	715,000	2,840,000
2026-29	1,545,000	157,000	1,702,000
Total	$ 6,670,000	$ 3,552,502	$ 10,222,502

As described in Note 14, the District has issued a refunding bond subsequent to June 30, 2011 to pay off the outstanding balance of the certificates.

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%. At June 30, 2011, there is no liability outstanding.

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, 2011 balance follow:

Fiscal Year	Principal
2011-12	$ 31,460
2012-13	31,460
2013-14	31,460
2014-15	31,460
2015-16	31,460
2016-21	157,301
2021-25	125,841
Total	$ 440,442

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
2011-12	$ 483,702	$ 52,578	$ 536,280
2012-13	238,998	20,331	259,329
2013-14	112,684	5,952	118,636
Total	$ 835,384	$ 78,861	$ 914,245

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

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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.

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

Fiscal Year	Principal	Interest	Total
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
2015-16	22,883	34,058	56,941
2016-21	127,491	150,397	277,888
2021-26	169,988	107,822	277,810
2026-31	225,561	50,030	275,591
2031-32	52,304	1,536	53,840
Total	$ 676,683	$ 490,604	$ 1,167,287

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 on the next page.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Special Tax Bonds (continued)

Community Facilities District No.2001-1 (continued)
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.

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

Fiscal Year	Principal	Interest	Total
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
2015-16	238,020	423,889	661,909
2016-21	1,423,541	1,877,668	3,301,209
2021-26	1,927,044	1,357,671	3,284,715
2026-31	2,622,793	639,047	3,261,840
2031-32	629,379	20,061	649,440
Total	$ 7,669,268	$ 6,139,982	$ 13,809,250

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.

NOTE 8 – JOINT POWERS AGREEMENTS

Condensed unaudited financial information is as follows:

	ASCIP Audited June 30, 2010	SELF Audited June 30, 2010
Total Assets	$ 244,838,044	$ 196,974,000
Total Liabilities	138,884,803	160,464,000
Net Assets	$ 105,953,241	$ 36,510,000
Total Revenues	$ 177,532,660	$ 14,851,000
Total Expenses	162,916,341	30,536,000
Total Non-Operating Revenues	-	4,533,000
Change in Net Assets	$ 14,616,319	$ (11,152,000)

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, 2011, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

For fiscal year 2011, 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).

NOTE 10 – RISK MANAGEMENT (continued)

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

Unpaid Claims Liabilities
The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2011:

	Workers' Compensation
Liability Balance, June 30, 2010	$ 1,418,109
Claims and changes in estimates	688,992
Claims payments	(731,556)
Liability Balance, June 30, 2011	$ 1,375,545
Change in Net Assets	$ 1,721,632

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).

Plan Description and Provisions

Public Employees' Retirement System (PERS)

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

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

Public Employees' Retirement System (PERS) (continued)

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 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2010-11	$ 1,657,723	100%
2009-10	$ 1,529,295	100%
2008-09	$ 1,593,917	100%

State Teachers' Retirement System (STRS)

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

Funding Policy
Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2010-11	$ 3,975,190	100%
2009-10	$ 4,302,698	100%
2008-09	$ 4,504,331	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 $2.0 million to STRS (4.267% of salaries subject to STRS in 2010-11).

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*

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 2010-11, the District contributed $1,004,379.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	$ 2,186,336
Interest on net OPEB obligation	108,805
Adjustment to ARC	(134,545)
Annual OPEB cost	2,160,596
Contributions made:	
Implicit rate subsidy	(317,584)
Contributions for pay-as-you-go costs	(1,004,379)
Increase in net OPEB obligation	838,633
Net OPEB liability - July 1, 2010	2,070,677
Net OPEB liability - June 30, 2011	$ 2,909,310

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	$ 1,803,954	54%	$ 830,275
2010	$ 2,186,336	43%	$ 2,070,677
2011	$ 2,160,596	46%	$ 2,909,310

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.

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 – ADJUSTMENT FOR RESTATEMENT

The beginning fund balances of the General Fund and the Non-Major Governmental Funds have been restated by $7,800,950 in the Statement of Revenues, Expenditures and Change in Fund Balances to recognize the beginning fund balances of the Deferred Maintenance Fund and the Special Reserve Fund for Postemployment Benefits, which are now reported within the General Fund. The beginning fund balance in the General Fund has also been increased by $50,000 to recognize the adjustment of the Self-Insurance Fund, which is also included in the General Fund.

NOTE 14 - SUBSEQUENT EVENTS

Capital Lease

The District entered into a capital lease agreement in the amount of $406,847 on July 5, 2011. The lease has been arranged for three years and has a stated interest rate of 4.28%

COP Refunding

On November 2, 2011, the District issued $6.9 million refunding bonds to refund the certificate of participation outstanding. The refunding bonds have a stated interest rate of 3.4%.

Required Supplementary Information

FULLERTON SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			Variance with
	Original	Final	Actual * (Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	$ 63,152,804	$ 66,911,631	$ 67,169,806	$ 258,175
Federal	7,515,432	10,243,661	8,737,768	(1,505,893)
Other State	15,136,926	15,812,281	16,452,388	640,107
Other Local	7,997,401	9,443,555	8,894,560	(548,995)
Total Revenues	93,802,563	102,411,128	101,254,522	(1,156,606)
Expenditures				
Certificated Salaries	48,826,975	48,926,308	48,348,207	578,101
Classified Salaries	15,359,585	15,380,629	14,904,580	476,049
Employee Benefits	20,437,307	20,515,946	19,965,414	550,532
Books and Supplies	4,207,176	6,248,335	4,593,880	1,654,455
Services and Other Operating Expenditures	8,597,117	8,818,155	7,476,751	1,341,404
Capital Outlay	-	-	4,000	(4,000)
Direct Support/Indirect Costs	1,615,105	1,690,105	1,691,398	(1,293)
Other Outgo	(283,595)	(145,864)	(143,639)	(2,225)
Total Expenditures	98,759,670	101,433,614	96,840,591	4,593,023
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,957,107)	977,514	4,413,931	3,436,417
Other Financing Sources and Uses				
Interfund Transfers In	1,921,506	33,000	33,000	-
Interfund Transfers Out	(352,401)	(1,130,469)	(1,091,933)	38,536
Total Other Financing Sources and Uses	1,569,105	(1,097,469)	(1,058,933)	38,536
Net changes in Fund Balances	(3,388,002)	(119,955)	3,354,998	3,474,953
Fund Balances, July 1, 2010	14,993,815	14,993,815	14,993,815	-
Fund Balances, June 30, 2011	$ 11,605,813	$ 14,873,860	$ 18,348,813	$ 3,474,953

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

See accompanying note to required supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2011

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

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2011, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code:

General Fund:	Excess Expenditures
Capital Outlay	$ 4,000
Direct Support/Indirect Costs	1,293
Other Outgo	2,225

Supplementary Information

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
Lynn Thornley	President	November 30, 2012
Hilda Sugarman	Vice-President	November 30, 2012
Beverly Berryman	Clerk	November 30, 2014
Janny Meyer	Member	November 30, 2014
Chris Thompson	Member	November 30, 2014

DISTRICT ADMINISTRATORS

Mitch Hovey, Ed.D.,
Superintendent

Janet Morey,
Assistant Superintendent, Educational Services

Mark Douglas,
Assistant Superintendent, Personnel Services

Gary Cardinale, Ed.D., [1]
Assistant Superintendent, Business Services

[1] On June 30, 2011, Gary Cardinale, Ed.D., retired from Fullerton School District. Effective July 1, 2011, Susan Hume commenced this position.

FULLERTON SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2011

	Second Period Report (Certificate No. 73A35DB0)	Annual Report (Certificate No. CA541498)
Elementary:		
Kindergarten	1,390	1,390
Grades 1 through 3	4,207	4,201
Grades 4 through 6	4,367	4,362
Grades 7 and 8	2,932	2,925
Home and hospital	2	2
Special education	358	360
Extended year	31	31
Total Average Daily Attendance	13,287	13,271

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2011

	1982-83 Minutes		1986-87 Minutes		2010-11	Number of Days	
Grade Level	Actual	Reduced*	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	35,985	175	Complied
Grade 1	40,480	39,356	50,400	49,000	50,853	175	Complied
Grade 2	40,480	39,356	50,400	49,000	50,853	175	Complied
Grade 3	40,480	39,356	50,400	49,000	50,853	175	Complied
Grade 4	42,240	41,067	54,000	52,500	53,015	175	Complied
Grade 5	42,240	41,067	54,000	52,500	53,015	175	Complied
Grade 6	42,240	41,067	54,000	52,500	53,015	175	Complied
Grade 7	60,896	59,204	54,000	52,500	60,474	175	Complied
Grade 8	60,896	59,204	54,000	52,500	60,474	175	Complied

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

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT

Schedule of Financial Trends and Analysis

For the Fiscal Year Ended June 30, 2011

General Fund	(Budget) 2012 [2]	2011 [3]	2010	2009
Revenues and other financing sources	$ 100,925,357	$ 101,287,522	$ 98,118,000	$ 111,065,498
Expenditures	102,400,362	96,840,591	99,196,244	107,234,240
Other uses and transfers out	257,160	412,132	513,260	1,090,706
Total outgo	102,657,522	97,252,723	99,709,504	108,324,946
Change in fund balance (deficit)	(1,732,165)	4,034,799	(1,591,504)	2,740,552
Ending fund balance	$ 16,106,139	$ 18,348,813	$ 14,943,815	$ 16,535,319
Available reserves [1]	$ 5,021,528	$ 11,207,815	$ 8,620,603	$ 1,808,231
Available reserves as a percentage of total outgo	4.9%	11.5%	8.6%	1.7%
Total long-term debt	$ 65,871,502	$ 68,009,423	$ 69,704,487	$ 68,204,081
Average daily attendance at P-2	13,279	13,287	13,231	13,123

The General Fund balance has increased by $1.8 million over the past two years. The fiscal year 2011-12 adopted budget projects a decrease of $1.7 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 2010-11, or 1%. The District must make progress in 2011-12 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 2011-12 fiscal year. The total long-term debt has decreased approximately $0.2 million over the past two years.

Average daily attendance has increased by 164 over the past two years. The District anticipates a decrease of 8 ADA for the 2011-12 fiscal year.

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

[2] Revised Budget September 2011.

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

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Especially Needy Breakfast Program	10.553	13526	$ 375,806
National School Lunch Program	10.555	13391	2,577,879
Summer Food Program	10.559	13004	20,078
USDA - Donated Foods	10.555	N/A	248,663
Total U.S. Department of Agriculture			3,222,426
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	14329	1,719,430
ARRA, Title I, Part A, Low Income and Neglected	84.389	15005	223,910
Title I, School Improvement Grant	84.377	14971	242,901
Title II, Part A, Teacher Quality	84.367	14341	656,182
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	34,986
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Competitive Grants	84.386	15126	45,635
Title III, Immigrant Education	84.365	15146	26,856
Title III, Limited English Proficiency	84.365	14436	408,805
Title IV, Part A, Safe & Drug Free Schools and Communities	84.186	14347	26,248
Title X McKinney-Vento Homeless Assistance Grants	84.196	14332	27,619
ARRA Title X McKinney-Vento Homeless Assistance	84.387	15007	10,866
ARRA State Fiscal Stabilization Funds	84.394	24997	1,052,661
CREATE Atr Grant	Unknown	N/A	233,011
Individuals with Disabilities Education Act (IDEA):			
IDEA Basic Local Assistance Entitlement, Part B	84.027	13379	2,212,985
ARRA IDEA, Part B, Basic Local Assistance Entitlement	84.391	15003	959,160
IDEA Preschool Grants, Part B	84.173	13430	66,114
ARRA IDEA Part B, Preschool Grants	84.392	15000	62,699
IDEA Preschool Local Entitlement, Part B	84.027A	13682	170,259
ARRA IDEA Part B, Preschool Local Entitlement	84.391	15002	109,115
Total U.S. Department of Education			8,289,442
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education:			
ARRA Quality Improvement Activities	93.575	15010	16,760
Passed through California Dept. of Health Services:			
Medi-Cal Administrative Activities	93.778	10060	156,298
Medi-Cal Billing Option & Administrative Activities	93.778	10013	325,292
Total U.S. Department of Health & Human Services			498,350
Total Expenditures of Federal Awards			$ 12,010,218

See accompanying note to supplementary information.

FULLERTON SCHOOL DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2011

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay	Special Reserve Fund for Other Postemployment Benefits
June 30, 2011, annual financial and budget report fund balance	$ 17,838,304	$ 2,563,191	$ 4,373,057	$ 1,858,481
Adjustments and reclassifications:				
Increase (decrease) in total fund balances:				
Accounts receivable underreported	510,509	-	-	-
Fund balance transfer (GASB 54)	8,794,729	(2,563,191)	(4,373,057)	(1,858,481)
Net adjustments and reclassifications	9,305,238	(2,563,191)	(4,373,057)	(1,858,481)
June 30, 2011, audited financial statement fund balance	$ 27,143,542	$ -	$ -	$ -

See accompanying note to supplementary information.

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.

Other Independent Auditors' Reports

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

Board of Trustees
Fullerton School District
Fullerton, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2011, which collectively comprise Fullerton School District's basic financial statements and have issued our report thereon dated December 13, 2011. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fullerton School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fullerton School District's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Fullerton School District in a separate letter dated December 13, 2011.

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

Nigro & Nigro, PC

December 13, 2011

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

Board of Trustees
Fullerton School District
Fullerton, California

Compliance

We have audited the compliance of Fullerton School District with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fullerton School District's management. Our responsibility is to express an opinion on Fullerton School District's compliance based on our audit.

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

In our opinion, Fullerton School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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Internal Control Over Compliance

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

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

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

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

Nigro & Nigro, PC

December 13, 2011

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fullerton School District
Fullerton, California

We have audited Fullerton School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11,* published by the Education Audit Appeals Panel, for the year ended June 30, 2011. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Fullerton School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Fullerton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	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	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with Only One School Serving K-3	4	Not applicable

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Description	Procedures in Audit Guide	Procedures Performed
After School Education and Safety Program:		
General Requirements	4	Yes
After School	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

In our opinion, Fullerton School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2011.

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

Nigro & Nigro, PC

December 13, 2011

Findings and Questioned Costs

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.394	State Fiscal Stabilization Fund
10.553 & 10.555	Child Nutrition Cluster
93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 360,307
Auditee qualified as low-risk auditee?	Yes

State Awards

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

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2010-11.

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 2010-11.

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 2010-11.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2010-1: Cafeteria Indirect Costs	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.	60000	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).	Implemented

To the Board of Trustees 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, 2011 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 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 December 13, 2011, on the financial statements of Fullerton School District.

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To the Board of Trustees of
Fullerton School District

Cash Receipts

Observation: During our testing of the various types of cash receipts collected at the District Office, we identified three of ten deposits which contained amounts that were not deposited until more than two weeks after the date of collection. The total amount of all three deposits amounted to $52,368.

Recommendation: In order to safeguard assets and maximize interest earnings, the District should ensure that cash and checks received are deposited within one week.

ASB Funds

Observation: During our testing at Fisler Elementary School, we noted that this school has an unorganized ASB with very minimal activity. However, in our sample of six expenses, we noted three where the original receipt was missing.

Recommendation: In order to provide adequate documentation for the amount and validity of expenditures, all original receipts should be retained and filed for audit.

This communication is intended solely for the information and use of the Board of Trustees 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

December 13, 2011