
**ORANGE UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

ORANGE UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Orange Unified School District
Orange, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified 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.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 59 through 60, are not a required part of the basic financial statements, but are supplementary information required by the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 State, 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 basic financial statements taken as a whole.

VAURINEX, TRINZ, DA J + CO, LLP

Rancho Cucamonga, California
November 1, 2011



ORANGE UNIFIED SCHOOL DISTRICT

Education Center

1401 North Handy Street • Orange, CA 92867-4334

714.628.4000 • 714.628.4046 (Fax)

www.orangeusd.k12.ca.us

This section of Orange Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2011

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

FINANCIAL HIGHLIGHTS

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$193.1 million for the fiscal year ended June 30, 2011. Of this amount, \$61.0 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2011	July 1, 2010, as Restated
Assets		
Current and other assets	\$ 232,501,564	\$ 185,340,544
Capital assets	152,270,383	145,047,449
Total Assets	384,771,947	330,387,993
Liabilities		
Current liabilities	30,393,396	23,679,946
Long-term obligations	161,286,488	156,906,858
Total Liabilities	191,679,884	180,586,804
Net Assets		
Invested in capital assets, net of related debt	98,543,428	72,277,591
Restricted	33,537,861	25,434,917
Unrestricted	61,010,774	52,088,681
Total Net Assets	\$ 193,092,063	\$ 149,801,189

The \$61.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

Changes in Net Assets

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

Table 2

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 8,272,985	\$ 8,992,273
Operating grants and contributions	57,642,969	54,649,305
Capital grants and contributions	12,162,597	2,472,946
General revenues:		
Federal and State aid not restricted	57,141,163	44,203,878
Property taxes	117,556,692	121,080,857
Other general revenues	12,990,709	9,079,375
Total Revenues	\$ 265,767,115	\$ 240,478,634
Expenses		
Instruction-related	168,087,399	163,031,648
Student support services	22,602,099	23,533,374
Administration	6,853,834	6,780,921
Maintenance and operations	18,745,163	20,266,609
Other	6,187,746	8,432,381
Total Expenses	222,476,241	222,044,933
Change in Net Assets	\$ 43,290,874	\$ 18,433,701

Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was \$222.5 million. The amount that our local taxpayers ultimately financed for these activities through local property taxes was \$117.6 million. The District also collected \$8.3 million in charges for services from those that benefited from the programs. Other government agencies and organizations subsidized certain programs with grants and contributions (\$69.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$70.1 million in unrestricted State and Federal funds, and with other revenues, such as gifts, interest and general entitlements.

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction-related	\$ 168,087,399	\$ 163,031,648	\$ 105,724,692	\$ 119,493,119
Student support services	22,602,099	23,533,374	9,892,724	7,820,890
Administration	6,853,834	6,780,921	5,440,464	5,161,220
Maintenance and operations	18,745,163	20,266,609	18,507,271	19,521,173
Other	6,187,746	8,432,381	4,832,539	3,934,007
Total	\$ 222,476,241	\$ 222,044,933	\$ 144,397,690	\$ 155,930,409

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$111.2 million, which is an increase of \$27.9 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2010, as Restated	Revenues	Expenditures	June 30, 2011
General	\$ 37,941,250	\$ 233,490,305	\$ 211,493,239	\$ 59,938,316
Special reserve fund for capital outlay projects	20,367,010	19,140,267	17,111,709	22,395,568
Adult education	57,167	314	57,481	-
Child development	733,386	5,509,997	5,341,838	901,545
Cafeteria	871,576	8,164,253	7,650,522	1,385,307
Deferred maintenance	3,477,136	1,017,933	885,986	3,609,083
Capital facilities	4,035,546	483,407	800,188	3,718,765
County school facilities	2,577,251	22,182,800	21,435,001	3,325,050
Capital project fund for blended component units	2,119,456	3,098,954	143,671	5,074,739
Debt service fund	11,169,772	3,353,066	3,654,216	10,868,622
Total	\$ 83,349,550	\$ 296,441,296	\$ 268,573,851	\$ 111,216,995

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the 2010-11 budget was adopted in September 2011. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 59).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$152.3 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$7.2 million, or 5.0 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2011	2010
Land and construction in progress	\$ 92,859,765	\$ 83,164,411
Buildings and improvements	56,416,283	58,588,340
Furniture & equipment	2,994,335	3,294,698
Total	\$ 152,270,383	\$ 145,047,449

As of June 30, 2011, the District had invested \$152.3 million, net of depreciation, in broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the 2010-11 fiscal year, the District continued the modernization of nine schools namely: Fairhaven Elementary School, Jordan Elementary School, Lampson Elementary School, Cerro Villa Middle School, Portola Middle School, Santiago Charter School, Yorba Middle School, El Modena High School, Orange High School.

A limited number of capital projects are planned for the 2011-12 year. Planning for future potential capital initiatives is ongoing. The District plans to acquire a modest amount of additional capitalized supplies, equipment, and furnishings during the 2011-12 year.

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

Long-Term Obligations

At the end of this year, the District had \$161.3 million in long-term obligations versus \$164.5 million last year, a decrease of 20 percent. Those obligations consisted of:

Table 6

	Governmental Activities	
	2011	July 1, 2010, as Restated
Certificates of participation	\$ 49,350,000	\$ 49,995,000
Compensated absences (vacations)	3,268,804	3,102,174
Capital leases	10,360,254	11,126,648
Retirement health benefits funding bonds	91,365,000	92,665,000
Supplemental early retirement plan (SERP)	4,117,068	6,175,602
Child care facilities revolving fund	12,362	24,724
Claims liability	2,813,000	1,379,944
Total	\$ 161,286,488	\$ 164,469,092

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total budgeted attendance of 27,090 (not including District charter schools, county special education and county community day schools) reflects an anticipated gain of ten ADA. The District charter schools' ADA of 2081.68 reflects no growth as compared to prior year. Per Education Code 42127(a)(1)(A) the Budget for 2011-12 projects the same level of revenue per ADA as received in the 2010-11 fiscal year. A 2.24% cost of living adjustment (COLA) with a 19.754% deficit is also included.

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

	Staffing Ratio
Grades K through two	30:1
Grades three through six	33:1
Grades seven through twelve	33:1

The new items specifically addressed in the budget are:

	% Change
Revenue limit cost of living adjustment	2.24%
Revenue limit deficit	19.754%
State and Federal cost of living adjustment	0.00%
Health and welfare increase	0.00%

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

The state's budget situation continues to reflect challenging economic conditions. The 2011 State Budget was balanced on reductions in the Proposition 98 minimum guarantee by re-designation of sales tax from state revenue to local revenue and optimistic state revenue projections. The State Budget enacted "Trigger Language" that automatically implements reductions to K-12 education if state revenue forecasts are not met. In addition, the Budget agreement permanently shifts the responsibility to provide AB3632 mental health services and out-of-home care residential services from county agencies to school district special education local plan areas (SELPA).

The state's budget challenges have adversely impacted the K-12 education budget. If state revenues fall short of targeted projections by more than \$2 billion, the state will impose a 50% cut to home-to-school, including special education transportation and will reduce revenue limits by up to 4%, proportional to the amount of the state shortfall.

No further Federal stimulus funding is anticipated. The remainder of 2010-11 Education Jobs Act funds is to be paid in 2011-12. Education Jobs funds are to be expended prior to September 30, 2012. State categorical flexibility continues through 2014-15 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any educational purpose. K-3 class size reduction penalties have been relaxed through 2013-14. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2013-14. School agencies maintain the flexibility to shorten the school year until 2014-15. If the "Trigger Language" reductions are implemented, AB114 provides the authority for school boards to negotiate the reduction of the school year by an additional 7 days to a minimum of 168 instructional days.

Other Factors

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs. All of these factors were considered in preparing the Orange Unified 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, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Orange Unified School District, 1401 North Handy Street, Orange, California, 92867, or e-mail at joes@orangeusd.org.

ORANGE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activities
ASSETS	
Deposits and investments	\$ 114,063,321
Receivables	34,251,077
Prepaid expenses	1,100,064
Deferred cost on issuance	910,766
Stores inventories	219,723
Net OPEB assets	81,956,613
Capital assets	
Land and construction in process	92,859,765
Other capital assets	122,871,293
Less: Accumulated depreciation	<u>(63,460,675)</u>
Total Capital Assets	<u>152,270,383</u>
Total Assets	<u>384,771,947</u>
LIABILITIES	
Accounts payable	15,323,139
Interest payable	268,992
Deferred revenue	4,801,265
Current loans	10,000,000
Current portion of long-term obligations	5,825,167
Noncurrent portion of long-term obligations	<u>155,461,321</u>
Total Long-Term Obligations	<u>161,286,488</u>
Total Liabilities	<u>191,679,884</u>
NET ASSETS	
Invested in capital assets, net of related debt	98,543,428
Restricted for:	
Debt service	10,868,622
Capital projects	7,046,021
Educational programs	4,247,497
Other activities	11,375,721
Unrestricted	<u>61,010,774</u>
Total Net Assets	<u>\$ 193,092,063</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 139,512,732	\$ 4,050,693	\$ 37,598,945	\$ 12,162,597	\$ (85,700,497)
Instruction-related activities:					
Supervision of instruction	8,024,704	232,319	5,529,814	-	(2,262,571)
Instructional library, media, and technology	4,472,924	69,519	1,346,780	-	(3,056,625)
School site administration	16,077,039	922,218	449,822	-	(14,704,999)
Pupil services:					
Home-to-school transportation	6,673,997	273,564	2,284,226	-	(4,116,207)
Food services	7,089,898	1,846,974	5,724,247	-	481,323
All other pupil services	8,838,204	473,445	2,106,919	-	(6,257,840)
Administration:					
Data processing	828,678	-	124,732	-	(703,946)
All other administration	6,025,156	161,857	1,126,781	-	(4,736,518)
Plant services	18,745,163	89,642	148,250	-	(18,507,271)
Ancillary services	1,434,827	-	32,536	-	(1,402,291)
Community services	31,594	-	10,143	-	(21,451)
Interest on long-term obligations	3,629,173	-	-	-	(3,629,173)
Other outgo	1,092,152	152,754	1,159,774	-	220,376
Total Governmental Activities	\$ 222,476,241	\$ 8,272,985	\$ 57,642,969	\$ 12,162,597	(144,397,690)
General revenues and subventions:					
Property taxes, levied for general purposes					114,538,628
Taxes levied for other specific purposes					3,018,064
Federal and State aid not restricted to specific purposes					57,141,163
Interest and investment earnings					685,387
Transfers between agencies					5,143,809
Miscellaneous					7,161,513
Subtotal, General Revenues					187,688,564
Change in Net Assets					43,290,874
Net Assets - Beginning, as restated					149,801,189
Net Assets - Ending					\$ 193,092,063

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

ORANGE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 52,176,949	\$ 25,145,739	\$ 28,466,460	\$ 105,789,148
Receivables	33,706,752	19,557	517,291	34,243,600
Due from other funds	184,467	-	1,052,950	1,237,417
Prepaid expenditures	1,100,064	-	-	1,100,064
Stores inventories	111,491	-	108,232	219,723
Total Assets	\$ 87,279,723	\$ 25,165,296	\$ 30,144,933	\$ 142,589,952
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,548,788	\$ 2,769,574	\$ 955,891	\$ 15,274,253
Due to other funds	1,104,548	154	192,737	1,297,439
Other current liabilities	10,000,000	-	-	10,000,000
Deferred revenue	4,688,071	-	113,194	4,801,265
Total Liabilities	27,341,407	2,769,728	1,261,822	31,372,957
Fund Balances:				
Nonspendable	1,336,555	-	118,232	1,454,787
Restricted	4,247,497	-	25,155,796	29,403,293
Committed	-	-	3,609,083	3,609,083
Assigned	4,258,810	22,395,568	-	26,654,378
Unassigned	50,095,454	-	-	50,095,454
Total Fund Balances	59,938,316	22,395,568	28,883,111	111,216,995
Total Liabilities and Fund Balances	\$ 87,279,723	\$ 25,165,296	\$ 30,144,933	\$ 142,589,952

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

ORANGE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Total Fund Balance - Governmental Funds		\$ 111,216,995
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 215,731,058	
Accumulated depreciation is	<u>(63,460,675)</u>	
Net Capital Assets		152,270,383
In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements postemployment benefits costs are recognized in the period that they are incurred. The other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.		81,956,613
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis as deferred costs on issuance.		910,766
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(268,992)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		5,479,786
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Certificates of participation	49,350,000	
Compensated absences (vacations)	3,268,804	
Capital leases	10,360,254	
Retirement health benefits funding bonds	91,365,000	
Supplementary early retirement plan	4,117,068	
Child care facilities revolving fund (portables)	12,362	
Total Long-Term Obligations		(158,473,488)
Total Net Assets - Governmental Activities		\$ 193,092,063

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

ORANGE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 148,584,529	\$ -	\$ -	\$ 148,584,529
Federal sources	22,076,170	-	5,666,312	27,742,482
Other State sources	54,786,117	-	14,438,020	69,224,137
Other local sources	7,620,801	1,698,169	10,943,655	20,262,625
Total Revenues	<u>233,067,617</u>	<u>1,698,169</u>	<u>31,047,987</u>	<u>265,813,773</u>
EXPENDITURES				
Current				
Instruction	137,796,132	-	4,278,242	142,074,374
Instruction-related activities:				
Supervision of instruction	8,055,704	-	4,934	8,060,638
Instructional library, media and technology	4,437,148	-	2,875	4,440,023
School site administration	15,383,056	-	873,563	16,256,619
Pupil services:				
Home-to-school transportation	6,575,718	-	-	6,575,718
Food services	2,516	-	7,097,596	7,100,112
All other pupil services	9,008,788	-	5,830	9,014,618
Administration:				
Data processing	928,877	-	-	928,877
All other administration	5,687,541	-	275,944	5,963,485
Plant services	18,147,608	-	535,450	18,683,058
Facility acquisition and construction	22,000	7,118,100	2,551,824	9,691,924
Ancillary services	1,408,203	-	-	1,408,203
Community services	105,359	-	-	105,359
Other outgo	1,092,152	-	-	1,092,152
Debt service:				
Principal	1,756,588	-	967,168	2,723,756
Interest and other	1,085,849	-	2,741,563	3,827,412
Total Expenditures	<u>211,493,239</u>	<u>7,118,100</u>	<u>19,334,989</u>	<u>237,946,328</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>21,574,378</u>	<u>(5,419,931)</u>	<u>11,712,998</u>	<u>27,867,445</u>
Other Financing Sources (Uses)				
Transfers in	422,688	17,442,098	12,762,737	30,627,523
Transfers out	-	(9,993,609)	(20,633,914)	(30,627,523)
Net Financing Sources (Uses)	<u>422,688</u>	<u>7,448,489</u>	<u>(7,871,177)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>21,997,066</u>	<u>2,028,558</u>	<u>3,841,821</u>	<u>27,867,445</u>
Fund Balances - Beginning	37,941,250	20,367,010	31,118,348	89,426,608
Prior Period Restatement	-	-	(6,077,058)	(6,077,058)
Fund Balances - Ending	<u>\$ 59,938,316</u>	<u>\$ 22,395,568</u>	<u>\$ 28,883,111</u>	<u>\$ 111,216,995</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 27,867,445
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceeds depreciation in the period.	
Capital outlays	\$ 9,695,354
Depreciation expense	<u>(2,472,420)</u>
Net Expense Adjustment	7,222,934
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were special termination benefits paid in the amount of \$2,058,534. Vacation earned was more than the amounts paid by \$166,630.	1,891,904
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide statements as an expense. The actual amount of the contribution was more than the other postemployment benefit cost.	4,480,177
Costs associated with issuance are recognized as expenditures in the period as they are incurred in governmental funds. However, in the government-wide statements, costs associated with issuance of debt are amortized over the life of the debt. This year's amortization for cost of issuance is:	(61,976)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:	
Certificates of participation	645,000
Retirement health benefits funding bonds	1,300,000
Capital lease obligations	766,394
Child care facilities revolving fund (portables)	12,362

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

ORANGE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued
FOR THE YEAR ENDED JUNE 30, 2011**

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

\$ 260,215

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

(1,093,581)

Change in Net Assets of Governmental Activities

\$ 43,290,874

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

ORANGE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 8,274,173
Receivables	7,477
Due from other funds	60,236
Total Assets	<u>8,341,886</u>
LIABILITIES	
Current Liabilities	
Accounts payable	48,886
Due to other funds	214
Current portion of claims liability	821,728
Total Current Liabilities	<u>870,828</u>
Noncurrent Liabilities	
Noncurrent portion of claims liability and assessment	<u>1,991,272</u>
NET ASSETS	
Restricted	5,479,786
Total Net Assets	<u>\$ 5,479,786</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

**Governmental
Activities -
Internal
Service Fund**

OPERATING REVENUES

Local and intermediate sources

\$ 2,116,974

OPERATING EXPENSES

Payroll costs

168,463

Other operating cost

3,099,045

Total Operating Expenses

3,267,508

Operating Loss

(1,150,534)

NONOPERATING REVENUES

Interest income

56,953

Change in Net Assets

(1,093,581)

Total Net Assets - Beginning

6,573,367

Total Net Assets - Ending

\$ 5,479,786

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

ORANGE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 2,111,029
Cash payments to employees for services	(168,893)
Cash payments for insurance claims	(1,661,202)
Net Cash Provided by Operating Activities	<u>280,934</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	56,953
Net Increase in Cash and Cash Equivalents	337,887
Cash and Cash Equivalents - Beginning	7,936,286
Cash and Cash Equivalents - Ending	<u>\$ 8,274,173</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,150,534)
Changes in assets and liabilities:	
Receivables	1,456
Due from other fund	(7,401)
Accrued liabilities	1,437,843
Due to other fund	(430)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 280,934</u>
NONCASH, NONCAPITAL FINANCING ACTIVITIES	

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

ORANGE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Retiree Benefits Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 120,495,326	\$ 8,200,159
Receivables	112,879	-
Prepaid expenses	146,797	-
Total Assets	<u>120,755,002</u>	<u>\$ 8,200,159</u>
LIABILITIES		
Accounts payable	6,924,849	\$ -
Due to student groups	-	2,090,923
Due to bondholders	-	6,109,236
Total Liabilities	<u>6,924,849</u>	<u>\$ 8,200,159</u>
NET ASSETS		
Restricted	<u>113,830,153</u>	
Total Net Assets	<u>\$ 113,830,153</u>	

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

ORANGE UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

JUNE 30, 2011

	Retiree Benefits Trust
ADDITIONS	
Private donations	\$ 7,526,306
District contributions	11,138,073
Interest	70,350
Total Additions	<u>18,734,729</u>
DEDUCTIONS	
Other expenditures	<u>7,294,993</u>
Change in Net Assets	11,439,736
Net Assets - Beginning	<u>102,390,417</u>
Net Assets - Ending	<u>\$ 113,830,153</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Orange Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

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

Other Related Entities

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

Basis of Presentation - Fund Accounting

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another fund.

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

Debt Service Funds The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on certificates of participation issued.

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

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

Fiduciary Funds Fiduciary Fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$50,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Interfund Balances

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Current Loans

The current loans consist of amounts outstanding at June 30, 2011, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$28,058,075 of restricted net assets, which is restricted by enabling legislation.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Changes in Accounting Principles

In March 2009, the GASB issued 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.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

New Accounting Pronouncements

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 114,063,321
Fiduciary funds	128,695,485
Total Deposits and Investments	<u>\$ 242,758,806</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 10,661,559
Cash in revolving	235,000
Investments	231,862,247
Total Deposits and Investments	<u>\$ 242,758,806</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

General Authorizations

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Authorized Under Debt Agreements

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Investment Pool and short-term money market funds.

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

Investment Type	Fair Value	Maturity Date/ Average Maturity in Days	Moody's Rating
Orange County Investment Pool	\$ 125,616,328	289	Aaa
Fidelity Institutional Governmental Money Market Fund	1,218,074	78	Aaa
Blackrock Equity Dividend Institutional Shares	4,206,376	-	Not rated
Brandes Institutional Internal Equity Fund, Class I	4,133,550	-	Not rated
Cohen & Steers Realty Shares Institutional, Class I	3,283,736	-	Not rated
John Hancock Classic Value Fund	4,162,664	-	Not rated
Hartford Capital Appreciation Fund, Class Y	5,035,491	-	Not rated
Hartford MidCap Fund, Class Y	2,092,262	-	Not rated
Nuveen Tradewinds Value Opportunities Fund, Class I	3,098,704	-	Not rated
Nuveen Tradewinds Global All-Cap Fund, Class I	3,157,848	-	Not rated
Prudential Global Real Estate Fund, Class Z	1,080,153	-	Not rated
Royce Global Value Fund, Investment Class	5,232,443	-	Not rated
Royce Special Equity Fund, Investment Class	2,035,591	-	Not rated
Thornburg Investment Income Builder Fund, Class I	3,030,601	-	Not rated
Thornburg International Value Fund, Class I	3,240,919	-	Not rated
Delaware Diversified Income Fund, Institutional Class	10,431,484	-	Not rated
Legg Mason BW Global Opportunities Bond Fund, Class IS	4,301,965	-	Not rated
MetWest Total Return Bond Fund, Class I Shares	10,331,560	-	Not rated
Oppenheimer International Bond Fund, Class Y	5,609,897	-	Not rated
PIMCO Total Return Fund, Institutional Class	2,654	-	Not rated
Prudential Total Return Bond Fund, Class Z	10,462,971	-	Not rated
Templeton Global Bond Fund, Advisor Class	9,908,111	-	Not rated
Western Asset Core Plus Bond Fund, Class I	10,393,399	-	Not rated
Total	\$ 232,066,781		

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type. The District's investment in the Orange County Investment Pool is rated Aaa by Moody's Investor Service. In addition, the Fidelity Institutional Governmental Money Market Fund is also rated Aaa by Moody's Investor Service. The other investment types have not been rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District's had a bank balance of \$4,521,792 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Federal Government						
Categorical aid	\$ 2,686,586	\$ -	\$ 363,864	\$ -	\$ 3,050,450	\$ -
State Government						
Apportionment	17,210,410	-	-	-	17,210,410	-
Categorical aid	2,880,521	-	95,671	-	2,976,192	-
Lottery	1,952,670	-	-	-	1,952,670	-
Special education	576,498	-	-	-	576,498	-
Local Government						
Interest	39,973	19,557	19,748	6,232	85,510	11,592
Due from retiree benefits trust	6,923,578	-	-	-	6,923,578	-
Other Local Sources	1,436,516	-	38,008	1,245	1,475,769	101,287
Total	\$ 33,706,752	\$ 19,557	\$ 517,291	\$ 7,477	\$ 34,251,077	\$ 112,879

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 19,687,697	\$ -	\$ -	\$ 19,687,697
Construction in Progress	63,476,714	9,695,354	-	73,172,068
Total Capital Assets Not Being Depreciated	83,164,411	9,695,354	-	92,859,765
Capital Assets Being Depreciated:				
Land Improvements	10,952,382	-	-	10,952,382
Buildings and Improvements	102,822,561	-	-	102,822,561
Furniture and Equipment	9,096,350	-	-	9,096,350
Total Capital Assets Being Depreciated	122,871,293	-	-	122,871,293
Total Capital Assets	206,035,704	9,695,354	-	215,731,058
Less Accumulated Depreciation:				
Land Improvements	9,189,212	223,563	-	9,412,775
Buildings and Improvements	45,997,391	1,948,494	-	47,945,885
Furniture and Equipment	5,801,652	300,363	-	6,102,015
Total Accumulated Depreciation	60,988,255	2,472,420	-	63,460,675
Governmental Activities Capital Assets, Net	\$ 145,047,449	\$ 7,222,934	\$ -	\$ 152,270,383

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Governmental Activities

Instruction	\$ 1,514,119
Supervision of instruction	86,556
Instructional library, media, and technology	48,400
School administration	175,026
Pupil transportation	72,013
Food services	77,756
Other pupil services	96,413
Ancillary services	15,140
Community services	1,154
Other general administration	64,985
Data processing services	10,172
Plant maintenance and operation	310,686
Total Depreciation Expenses Governmental Activities	<u>\$ 2,472,420</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2011, between major and non-major governmental funds and internal service funds:

Due To	Due From				Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 127	\$ 184,126	\$ 214	\$ 184,467
Non-Major Governmental Funds	1,052,950	-	-	-	1,052,950
Internal Service Fund	51,598	27	8,611	-	60,236
Total	\$ 1,104,548	\$ 154	\$ 192,737	\$ 214	\$ 1,297,653

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

A balance of \$131,153 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from payroll, indirect costs, and other operating costs.

A balance of \$51,598 due to the Internal Service Fund from the General Fund resulted from the District's contribution to the workers' compensation program.

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

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	Transfer From		
	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 422,688	\$ 422,688
Special Reserve Fund for Capital Outlay Projects	-	17,442,098	17,442,098
Non-Major Governmental Funds	9,993,609	2,769,128	12,762,737
Total	<u>\$ 9,993,609</u>	<u>\$ 20,633,914</u>	<u>\$ 30,627,523</u>

The Special Reserve Fund for Capital Outlay Projects transferred to the County School Facilities Non-Major Governmental Fund for District match.	\$ 9,993,609
The Adult Education Non-Major Governmental Fund transferred to the General Fund to close out the Fund.	40,887
The Cafeteria Non-Major Governmental Fund transferred to the General Fund for indirect costs owed from 2004/2005 fiscal year.	381,801
The County School Facilities Non-Major Governmental Fund transferred to the Special Reserve Fund for Capital Outlay Projects for reimbursement of qualified capital expenditures.	17,442,098
The County School Facilities Non-Major Governmental Fund transferred to the Capital Projects Blended Component Units Non-Major Governmental Fund for reimbursement of qualified capital expenditures.	2,769,128
Total	<u>\$ 30,627,523</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Fund
Salaries and benefits	\$ 7,504,956	\$ 4,501	\$ 709,354	\$ -	\$ 8,218,811	\$ -
State apportionment	1,058,446	-	-	-	1,058,446	-
Supplies	789,946	-	59,604	-	849,550	-
Services	1,378,617	28,351	65,733	48,779	1,521,480	-
Due to other Districts	590,769	-	-	-	590,769	-
Due to Orange County Department of Education	134,393	-	-	-	134,393	-
Construction	-	2,736,675	104,099	-	2,840,774	-
Due to District	-	-	-	-	-	6,924,849
Due to retiree benefits trust	86,266	47	14,867	107	101,287	-
Other payables	5,395	-	2,234	-	7,629	-
Total	\$ 11,548,788	\$ 2,769,574	\$ 955,891	\$ 48,886	\$ 15,323,139	\$ 6,924,849

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 4,636,619	\$ -	\$ 4,636,619
State categorical aid	15,861	-	15,861
Other local	35,591	113,194	148,785
Total	\$ 4,688,071	\$ 113,194	\$ 4,801,265

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2010, the District issued \$10,000,000 of Tax and Revenue Anticipation Notes bearing interest at 0.677 percent. The notes were issued to supplement cash flows. Repayments of the notes began in January 2011 until 100 percent of principal and interest were paid to the Orange County Treasury where funds are held until the maturity date of August 9, 2011. The District has recorded the cash available to make principal and interest payments as Cash in County Treasury and with the corresponding liability as a current loan.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010 As Restated	Additions	Deductions	Balance June 30, 2011	Due in One Year
2003 Certificates of Participation	\$ 49,995,000	\$ -	\$ 645,000	\$ 49,350,000	\$ 795,000
Compensated absences	3,102,174	166,630	-	3,268,804	-
Capital leases payable	11,126,648	-	766,394	10,360,254	637,543
Retirement health benefits funding bonds	92,665,000	-	1,300,000	91,365,000	1,500,000
Supplemental early retirement plan (SERP)	6,175,602	-	2,058,534	4,117,068	2,058,534
Child care facilities revolving fund (portables)	24,724	-	12,362	12,362	12,362
Claims liability	1,379,944	2,254,784	821,728	2,813,000	821,728
	<u>\$ 164,469,092</u>	<u>\$ 2,421,414</u>	<u>\$ 5,604,018</u>	<u>\$ 161,286,488</u>	<u>\$ 5,825,167</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2003 Certificates of Participation

In May 2003, the District, pursuant to a sublease agreement with Orange Schools Financing Corporation (the Corporation), issued \$53,000,000 Certificates of Participation. The certificates have a final maturity to occur on June 1, 2029, with interest rates ranging from 3.50 to 4.50 percent. A portion of the proceeds from the sale of the certificates were used to provide for the refunding of the District's 1994 Certificates of Participation that was issued in the amount of \$12,435,000. The remaining portion of proceeds was used to finance the construction and modernization of multiple school facilities throughout the District. As of June 30, 2011, the principal balance of \$49,350,000 remained outstanding.

The certificates mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 795,000	\$ 2,260,306	\$ 3,055,306
2013	955,000	2,232,481	3,187,481
2014	1,125,000	2,196,669	3,321,669
2015	1,305,000	2,153,356	3,458,356
2016	1,495,000	2,101,156	3,596,156
2017-2021	10,815,000	9,353,275	20,168,275
2022-2026	17,830,000	6,252,781	24,082,781
2027-2029	15,030,000	1,466,563	16,496,563
Total	<u>\$ 49,350,000</u>	<u>\$ 28,016,587</u>	<u>\$ 77,366,587</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$3,268,804.

Capital Leases

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

Balance, July 1, 2010	<u>Equipment</u> \$ 16,055,066
Additions	-
Payments	(1,257,120)
Balance, June 30, 2011	<u>\$ 14,797,946</u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 1,097,153
2013	1,011,102
2014	774,445
2015	794,111
2016	810,661
2017-2021	4,365,687
2022-2026	4,990,114
2027-2028	956,675
Total	14,799,948
Less: Amount Representing Interest	(4,439,694)
Present Value of Minimum Lease Payments	<u>\$ 10,360,254</u>

Retirement Health Benefits Funding Bonds

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (The Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562%). Proceeds from the sale of bonds were used to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2011, the principal balance of \$91,365,000 remained outstanding, and unamortized cost of issuance was \$910,766.

The bonds mature through 2043 as follows:

June 30,	Principal	Interest	Total
2012	\$ 1,500,000	\$ 967,600	\$ 2,467,600
2013	1,600,000	951,604	2,551,604
2014	1,600,000	934,636	2,534,636
2015	1,700,000	917,580	2,617,580
2016	2,000,000	899,286	2,899,286
2017-2021	10,100,000	4,170,770	14,270,770
2022-2026	13,800,000	3,561,954	17,361,954
2027-2031	14,700,000	2,817,749	17,517,749
2032-2036	19,500,000	1,941,776	21,441,776
2037-2041	19,400,000	868,638	20,268,638
2042-2043	5,465,000	80,328	5,545,328
Total	<u>\$ 91,365,000</u>	<u>\$ 18,111,921</u>	<u>\$ 109,476,921</u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Supplementary Early Retirement Plan (SERP)

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

As of June 30, 2011, the balance was \$4,117,068. Future payments for supplementary early retirement plan are as follows:

Year Ending June 30,	Future Payment
2012	\$ 2,058,534
2013	2,058,534
Total	<u>\$ 4,117,068</u>

Child Care Facilities Revolving Fund (Portables)

The District financed the purchase of Child Development portables through the California Department Education's Child Care Facilities Revolving Fund. The agreement with CDE includes a zero percent interest rate for portable classrooms. During the term of the repayment, the title to the facilities remains with the State of California. The title will pass to the District upon the repayment of all funds. As of June 30, 2011, the principal balance of \$12,362 remained outstanding.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2011, amounted to \$2,813,000, using a discount factor of three percent.

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$18,420,000 as of June 30, 2011, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 125,000	\$ -	\$ 10,000	\$ 135,000
Stores inventories	111,491	-	108,232	219,723
Prepaid expenditures	1,100,064	-	-	1,100,064
Total Nonspendable	1,336,555	-	118,232	1,454,787
Restricted				
Legally restricted programs	4,247,497	-	2,168,620	6,416,117
Capital projects	-	-	12,118,554	12,118,554
Debt services	-	-	10,868,622	10,868,622
Total Restricted	4,247,497	-	25,155,796	29,403,293
Committed				
Deferred maintenance program	-	-	3,609,083	3,609,083
Assigned				
El Rancho charter	2,678,529	-	-	2,678,529
Non-resident tuition	56,127	-	-	56,127
School site balances	135,041	-	-	135,041
School site/department donations	754,056	-	-	754,056
Instructional materials	370,659	-	-	370,659
ARRA Special Education freed up funds	260,806	-	-	260,806
Advanced placement fee reimbursement	3,592	-	-	3,592
Kelly field refurbishment	-	800,000	-	800,000
Yorba grounds	-	28,957	-	28,957
Lampson building replacement	-	66,799	-	66,799
Fairhaven building replacement	-	130,875	-	130,875
Esplanade modernization	-	21,714	-	21,714
Fairhaven modernization	-	505,958	-	505,958
Jordan modernization	-	9,497	-	9,497
Portola modernization	-	12,848	-	12,848
Sycamore modernization	-	336,932	-	336,932
Yorba modernization	-	2,198,801	-	2,198,801
Lampson modernization	-	4,839,408	-	4,839,408
Other projects	-	13,443,779	-	13,443,779
Total Assigned	4,258,810	22,395,568	-	26,654,378
Unassigned				
Reserve for economic uncertainties	6,208,647	-	-	6,208,647
Remaining unassigned	43,886,807	-	-	43,886,807
Total Unassigned	50,095,454	-	-	50,095,454
Total	\$ 59,938,316	\$ 22,395,568	\$ 28,883,111	\$ 111,216,995

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Orange Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligible retirees are those individuals who retired on or after attaining the age of 53 for classified retirees or 55 for certificated retirees and have at least 10 years of service with the District. Benefits will continue for these retirees until they reach the age of 65. Membership of the Plan consists of 1045 retirees and beneficiaries currently receiving benefits, 15 terminated plan members entitled to but not yet receiving benefits, and 1774 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (CUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CUEA, CSEA and the unrepresented groups. For fiscal year 2010-11, the District contributed \$3,637,693 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ 2,104,444
Interest on net OPEB asset	(4,803,539)
Adjustment to annual required contribution	1,856,611
Annual OPEB cost (expense)	<u>(842,484)</u>
Contributions made	<u>(3,637,693)</u>
Increase in net OPEB asset	4,480,177
Net OPEB asset beginning of year	77,476,436
Net OPEB asset, end of year	<u><u>\$ 81,956,613</u></u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2008	\$ 13,531,444	\$ 1,876,518	14%	\$ 82,108,709
2009	13,531,444	-	0%	68,577,265
2010	3,016,017	2,104,444	70%	77,476,436
2011	(842,484)	3,637,693	432%	81,956,613

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 1, 2009	\$ 97,237,770	\$ (40,750,535)	\$ (137,988,305)	338.6%	\$ 41,711,505	(330.8)%

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

Actuarial Methods and Assumptions

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

In the December 1, 2009, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 6.2 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial five percent to an ultimate rate of eleven percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2011, was 26 years.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2011, the District contracted with Southern California Regional Liability Excess Fund (SoCal ReLiEF) risk management pool for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Association for Excess Risk (SAFER) for amounts in excess of the District's liability limit up to \$25,000,000.

Workers Compensation

For the fiscal year of 2010-2011, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through Liberty Mutual Insurance Company, a commercial insurance carrier.

Employee Medical Benefits

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

Claims Liabilities

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2011:

	Workers' Compensation
Liability Balance, July 1, 2009	\$ 1,388,036
Claims and changes in estimates	460,249
Claims payments	(468,341)
Liability Balance, June 30, 2010	1,379,944
Claims and changes in estimates	2,254,784
Claims payments	(821,728)
Liability Balance, June 30, 2011	<u>\$ 2,813,000</u>
Assets available to pay claims at June 30, 2011	<u>\$ 8,341,886</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$8,538,545, \$8,826,428, and \$9,360,513, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 percent of covered payroll. The contribution requirements of the plan member are established by State statute. In accordance with bargaining unit agreements, the District is required to make contributions on behalf of the employee at a rate of 7.0 percent of annual payroll. The District's contribution to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009 were \$5,529,165, \$5,486,810, and \$5,666,220 respectively, and equal 100 percent of the required contribution for each year.

Public Agency Retirement System (PARS)

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

During the year, the District's required and actual contributions amounted to \$81,882, which was 1.3 percent of its current-year covered payroll. Employee contributions amounted to \$385,428.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,538,368 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

Construction Commitments

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Yorba Academy of Arts Middle Modernization	\$ 70,814	09/30/11
Lampson Elementary Modernization	773,615	06/30/13
	<u>\$ 844,429</u>	

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

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

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. The audited financial statements are available from the entity. During the year ended June 30, 2011, the District made \$985,520, for the coverage noted above.

NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), approximately 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 18 - RESTATEMENT OF PRIOR YEAR NET ASSETS AND FUND BALANCES

Certain items that occurred in the prior year net assets and fund balances have been restated as of June 30, 2010, to more accurately reflect the substance of the underlying transactions. The following table lists the reason for the restatement.

Government-Wide Financial Statements

Net Assets - Beginning	\$ 136,058,247
Misclassification of CFD activity as governmental activities, reclassified to agency fund	(6,077,058)
Overstatement of long-term obligations from CFD activity	19,820,000
Net Assets - Beginning As Restated	<u>\$ 149,801,189</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 31,118,348
Misclassification of CFD activity as governmental activities, reclassified to agency fund	(6,077,058)
Fund Balance - Beginning as Restated	<u>\$ 25,041,290</u>

REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variance - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Revenue limit sources	\$ 139,930,619	\$ 148,584,978	\$ 148,584,529	\$ (449)
Federal sources	20,357,081	30,079,692	22,076,170	(8,003,522)
Other State sources	46,437,866	50,276,833	54,786,117	4,509,284
Other local sources	6,568,557	8,090,926	7,620,801	(470,125)
Total Revenues ¹	213,294,123	237,032,429	233,067,617	(3,964,812)
EXPENDITURES				
Current				
Certificated salaries	105,764,048	109,841,129	104,725,519	5,115,610
Classified salaries	32,978,910	33,709,844	32,671,416	1,038,428
Employee benefits	47,397,434	48,626,870	47,370,378	1,256,492
Books and supplies	16,003,059	17,865,096	6,203,808	11,661,288
Services and operating expenditures	18,610,846	20,949,551	16,827,004	4,122,547
Capital outlay	-	33,045	33,040	5
Other outgo	1,623,473	1,053,661	819,637	234,024
Debt service - principal	2,067,283	1,756,588	1,756,588	-
Debt service - interest	4,890,222	1,085,849	1,085,849	-
Total Expenditures ¹	229,335,275	234,921,633	211,493,239	23,428,394
Excess (Deficiency) of Revenues Over Expenditures	(16,041,152)	2,110,796	21,574,378	19,463,582
Other Financing Sources				
Transfers in	-	422,688	422,688	-
NET CHANGE IN FUND BALANCES	(16,041,152)	2,533,484	21,997,066	19,463,582
Fund Balances - Beginning	37,941,250	37,941,250	37,941,250	-
Fund Balances - Ending	\$ 21,900,098	\$ 40,474,734	\$ 59,938,316	\$ 19,463,582

¹ On behalf payments of \$4,538,368 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2006	\$ 13,550,427	\$ 138,309,571	\$ 124,759,144	9.8%	\$ 36,179,801	344.8%
October 1, 2007	2,171,175	167,391,481	165,220,306	1.3%	36,388,765	454.0%
December 1, 2009	97,237,770	(40,750,535)	(137,988,305)	338.6%	41,711,505	-330.8%

SUPPLEMENTARY INFORMATION

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ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060	[1]	\$ 74,023
Readiness and Emergency Management for Schools	84.184E	[1]	10,369
Teaching American History	84.215X	[1]	322,399
Passed through California Department of Education (CDE)			
Education Jobs Fund	84.410	25152	526,492
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies Cluster			
Title I, Part A - Low Income and Neglected	84.010	14329	3,748,340
ARRA Title I, Part A - Low Income and Neglected	84.389	15005	2,503,649
ARRA Title I, School Improvement Grant	84.389	15004	339,734
Subtotal Title I Grants to Local Educational Agencies Cluster			<u>6,591,723</u>
Improving Teacher Quality State Grants Cluster			
Title II, Part A - Improving Teacher Quality	84.367	14341	1,165,170
Title II, Part A - Administrator Training Program	84.367	14344	17,512
Subtotal Improving Teacher Quality State Grants Cluster			<u>1,182,682</u>
Education Technology State Grants Cluster			
Title II, Part D - Enhancing Education Through Technology Formula Grants	84.318	14334	24,328
Title II, Part D - Enhancing Education Through Technology Competitive Grants	84.318	14368	132,083
ARRA Title II, Part D - Enhancing Education Through Technology Formula Grants	84.386	15019	86,120
ARRA Title II, Part D - Enhancing Education Through Technology Competitive Grants	84.386	15126	500,000
Subtotal Education Technology State Grants Cluster			<u>742,531</u>
McKinney-Vento Homeless Assistance Grants Cluster			
Title X - McKinney-Vento Homeless Assistance Grant	84.196	14332	31,138
ARRA Title X - McKinney-Vento Homeless Assistance Grant	84.387	15007	2,747
Subtotal McKinney-Vento Homeless Assistance Grant			<u>33,885</u>

[1] Direct-award, no PCA number.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (continued)			
		14971, 15123,	
Title I - School Improvement Grant	84.377	15124	\$ 647,008
Title III, Part A - Immigrant Education	84.365	14346	631,484
Title III, Part A - Limited English Proficient Student Program	84.365	10084	
Title IV, Part A - Safe and Drug-Free Schools	84.186	14347	64,912
Title V, Part A - Innovative Education Strategies	84.298A	14354	
ARRA State Fiscal Stabilization Fund	84.394	24997	7,652,505
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	14,825
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Local Assistance Entitlement	84.027	13379	5,294,491
ARRA Local Assistance Entitlement	84.391	15003	1,920,590
Local Assistance Private Schools ISP	84.027	10115	37,525
Preschool Grant, Part B	84.173	13430	131,770
ARRA Preschool Grant, Part B	84.392	15000	90,720
Preschool Staff Development	84.173A	13431	4,880
Preschool Local Entitlement	84.027A	13682	261,893
ARRA Preschool Local Entitlement	84.391	15002	111,383
Subtotal Special Education (IDEA) Cluster			<u>7,853,252</u>
Early Intervention Grants	84.181	23761	86,305
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education Cluster			
Career and Technical Education - Secondary Education	84.048	14894	249,739
Passed through Central County Regional Occupational Program			
Career and Technical Education - Adult Education	84.048	NA	61,943
Subtotal Career Technical Education Cluster			<u>311,682</u>
Passed through Rancho Santiago Community College District			
Technical Prep Consortium Project Agreement	84.243	NA	7,000
Total U.S. Department of Education			<u>26,753,077</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Medi-Cal Assistance Program Cluster			
Medi-Cal Billing Option	93.778	10013	845,534
Medi-Cal Administrative Activities	93.778	10060	235,738
Subtotal Medi-Cal Assistance Program Cluster			<u>1,081,272</u>
Total U.S. Department of Health and Human Services			<u>1,081,272</u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	\$ 3,967,877
Meal Supplements	10.555	13396	89,747
Basic School Breakfast Program	10.553	13390	13,074
Especially Needy Breakfast Program	10.553	13526	980,480
Commodities	10.555	13396	533,647
Subtotal Child Nutrition Cluster			<u>5,584,825</u>
Forest Reserve	10.665	10044	12,928
Fresh Fruit and Vegetable Program	10.582	14968	81,487
Total U.S. Department of Agriculture			<u>5,679,240</u>
Total Federal Programs			<u>\$ 33,513,589</u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

ORGANIZATION

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

GOVERNING BOARD

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

ADMINISTRATION

Renae Dreier, Ed.D	Superintendent
Michael C. Christensen, MBA	Deputy Superintendent, Administrative Services
Ed Kisse	Assistant Superintendent, Human Resources
Gunn Marie Hansen, Ph.D	Assistant Superintendent, Educational Services

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Final Report	
	Revised Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	2,044	2,049
First through third	6,229	6,228
Fourth through sixth	6,433	6,433
Seventh and eighth	2,219	2,219
Home and hospital	11	13
Special education	676	682
Community day school	11	14
Total Elementary	<u>17,623</u>	<u>17,638</u>
SECONDARY		
Regular classes	8,653	8,607
Continuation education	319	313
Home and hospital	39	41
Special education	396	394
Community day school	49	48
Total Secondary	<u>9,456</u>	<u>9,403</u>
Total K-12	<u>27,079</u>	<u>27,041</u>
CHARTER SCHOOL		
Seventh and eighth (classroom based)	1,122	1,117
Seventh and eighth (non-classroom based)	1	1
Total	<u>1,123</u>	<u>1,118</u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	35,000	175	-	Complied
Grades 1 - 3	43,324	42,121	50,400	49,000				
Grade 1					49,275	175	-	Complied
Grade 2					49,275	175	-	Complied
Grade 3					49,275	175	-	Complied
Grades 4 - 6	49,774	48,391	54,000	52,500				
Grade 4					52,630	175	-	Complied
Grade 5					52,630	175	-	Complied
Grade 6					52,630	175	-	Complied
Grades 7 - 8	62,589	60,850	54,000	52,500				
Grade 7					61,096	175	-	Complied
Grade 8					61,096	175	-	Complied
Grades 9 - 12	62,300	60,569	64,800	63,000				
Grade 9					63,000	175	-	Complied
Grade 10					63,000	175	-	Complied
Grade 11					63,000	175	-	Complied
Grade 12					63,000	175	-	Complied

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

There were no adjustment to the Unaudited Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND				
Revenues	\$ 222,650,088	\$ 233,067,617	\$ 215,899,403	\$ 242,313,804
Other sources	-	422,688	294,882	87,163
Total Revenues and Other Sources	222,650,088	233,490,305	216,194,285	242,400,967
Expenditures	234,002,256	211,493,239	216,228,622	233,863,137
Other uses and transfers out	2,894,763	-	-	79,499
Total Expenditures and Other Uses	236,897,019	211,493,239	216,228,622	233,942,636
INCREASE (DECREASE) IN FUND BALANCES	\$ (14,246,931)	\$ 21,997,066	\$ (34,337)	\$ 8,458,331
ENDING FUND BALANCES	\$ 45,691,385	\$ 59,938,316	\$ 37,941,250	\$ 37,975,587
AVAILABLE RESERVES ²	\$ 43,860,259	\$ 50,095,454	\$ 24,546,531	\$ 15,381,939
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	18.51%	24.21%	11.40%	6.60%
LONG-TERM OBLIGATIONS ⁵	N/A	\$ 161,286,488	\$ 164,469,092	\$ 188,559,295
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	27,090	27,079	26,895	26,966

The General Fund balance has increased by \$21,962,729 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$14,246,931 (23.8 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have decreased by \$27,272,807 over the past two years.

Average daily attendance has increased by 113 over the past two years. An additional increase of 11 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payment of \$4,538,368, has been excluded from the calculation of available reserves for the fiscal year ending June 30, 2011.

⁴ Excludes charter school ADA.

⁵ Long-term obligations represent restated totals.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2011**

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

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Adult Education		Child Development		Cafeteria		Deferred Maintenance		Capital Facilities		County School Facilities		Capital Project Fund for Blended Component Units		Debt Service Fund		Total Non-Major Governmental Funds	
	Fund		Fund		Fund		Fund		Fund		Fund		Component Units	Fund		Fund		
ASSETS																		
Deposits and investments	\$ 40,732	\$ 1,318,334	\$ 1,343,603	\$ 2,634,601	\$ 3,792,742	\$ 3,412,812	\$ 5,072,533	\$ 10,861,103	\$ 28,466,460									
Receivables	32	69,345	392,540	35,425	7,194	2,748	2,478	7,519	517,291									
Due from other funds	1,078	41,032	39,905	964,921	6,014	-	-	-	1,052,950									
Stores inventories	-	-	108,232	-	-	-	-	-	108,232									
Total Assets	\$ 41,842	\$ 1,428,711	\$ 1,884,280	\$ 3,624,947	\$ 3,805,950	\$ 3,415,570	\$ 5,075,011	\$ 10,868,622	\$ 30,144,933									
LIABILITIES AND FUND BALANCES																		
Liabilities:																		
Accounts payable	\$ 350	\$ 391,930	\$ 372,357	\$ 15,864	\$ 84,598	\$ 90,520	\$ 272	\$ -	\$ 955,891									
Due to other funds	41,492	135,236	13,422	-	2,587	-	-	-	192,737									
Deferred revenue	-	-	113,194	-	-	-	-	-	113,194									
Total Liabilities	41,842	527,166	498,973	15,864	87,185	90,520	272	-	1,261,822									
Fund Balances:																		
Nonspendable	-	-	118,232	-	-	-	-	-	118,232									
Restricted	-	901,545	1,267,075	-	3,718,765	3,325,050	5,074,739	10,868,622	25,155,796									
Committed	-	-	-	3,609,083	-	-	-	-	3,609,083									
Total Fund Balances	-	901,545	1,385,307	3,609,083	3,718,765	3,325,050	5,074,739	10,868,622	28,883,111									
Total Liabilities and Fund Balances	\$ 41,842	\$ 1,428,711	\$ 1,884,280	\$ 3,624,947	\$ 3,805,950	\$ 3,415,570	\$ 5,075,011	\$ 10,868,622	\$ 30,144,933									

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES									
Federal sources	\$ -	\$ -	\$5,666,312	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,666,312
Other State sources	-	876,088	434,671	964,921	-	12,162,340	-	-	14,438,020
Other local sources	314	4,633,909	2,063,270	53,012	483,407	26,851	329,826	3,353,066	10,943,655
Total Revenues	314	5,509,997	8,164,253	1,017,933	483,407	12,189,191	329,826	3,353,066	31,047,987
EXPENDITURES									
Current									
Instruction	9,037	4,268,605	-	-	-	-	-	-	4,278,242
Instruction-related activities:									
Supervision of instruction	-	4,934	-	-	-	-	-	-	4,934
Instructional library, media, and technology	179	2,696	-	-	-	-	-	-	2,875
School site administration	1,856	871,707	-	-	-	-	-	-	873,563
Pupil services:									
Food services	-	-	7,097,596	-	-	-	-	-	7,097,596
All other pupil services	3,563	2,267	-	-	-	-	-	-	5,830
Administration:									
All other administration	362	115,570	156,583	-	3,429	-	-	-	275,944
Plant services	997	36,086	-	498,367	-	-	-	-	535,450
Facility acquisition and construction	-	-	-	387,619	796,759	1,223,775	143,671	-	2,551,824
Debt service									
Principal	-	37,782	13,388	-	-	-	-	915,998	967,168
Interest and other	-	2,191	1,154	-	-	-	-	2,738,218	2,741,563
Total Expenditures	16,594	5,341,838	7,268,721	885,986	800,188	1,223,775	143,671	3,654,216	19,334,989
Excess (Deficiency) of Revenues Over Expenditures	(16,280)	168,159	895,532	131,947	(316,781)	10,965,416	186,155	(301,150)	11,712,998
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	-	9,993,609	2,769,128	-	12,762,737
Other sources	-	-	-	-	-	-	-	-	-
Transfers out	(40,887)	-	(381,801)	-	-	(20,211,226)	-	-	(20,633,914)
Net Financing Sources (Uses)	(40,887)	-	(381,801)	-	-	(10,217,617)	2,769,128	-	(7,871,177)
NET CHANGE IN FUND BALANCES	(57,167)	168,159	513,731	131,947	(316,781)	747,799	2,955,283	(301,150)	3,841,821
Fund Balances - Beginning	57,167	733,386	871,576	3,477,136	4,035,546	2,577,251	8,196,514	11,169,772	31,118,348
Prior Period Adjustment	-	-	-	-	-	-	(6,077,058)	-	(6,077,058)
Fund Balances - Ending	\$ -	\$ 901,545	\$1,385,307	\$ 3,609,083	\$3,718,765	\$ 3,325,050	\$ 5,074,739	\$10,868,622	\$ 28,883,111

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2011

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 22,076,170	9.5	\$ 20,695,266	9.6	\$ 23,627,834	9.8
State and local revenue included in revenue limit	148,584,529	63.8	140,369,470	65.0	159,015,509	65.6
Other State revenue	54,786,117	23.5	47,400,693	22.0	52,123,704	21.5
Other local revenue	7,620,801	3.2	7,433,974	3.4	7,546,757	3.1
Total Revenues	233,067,617	100.0	215,899,403	100.0	242,313,804	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	104,725,522	44.9	108,054,297	50.0	115,080,189	47.5
Classified salaries	32,671,416	14.0	34,539,682	16.0	37,217,892	15.4
Employee benefits	47,370,376	20.4	46,062,990	21.4	46,856,014	19.3
Total Salaries and Benefits	184,767,314	79.3	188,656,969	87.4	199,154,095	82.2
Books and supplies	6,203,808	2.7	6,550,521	3.1	8,478,248	3.5
Contracts and operating expenses	16,827,003	7.2	15,839,623	7.3	17,451,677	7.2
Capital outlay	33,040	0.0	269,144	0.1	3,646,668	1.5
Other outgo	3,662,074	1.6	4,912,365	2.3	5,132,448	2.1
Total Expenditures	211,493,239	90.8	216,228,622	100.2	233,863,136	96.5
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,574,378	9.2	(329,219)	(0.2)	8,450,668	3.5
OTHER FINANCING SOURCES (USES)						
Transfers in	422,688	0.2	294,882	0.2	87,162	0.0
Transfers out	-	0.0	-	0.0	(79,499)	(0.0)
INCREASE (DECREASE) IN FUND BALANCE	21,997,066	9.4	(34,337)	0.0	8,458,331	3.5
FUND BALANCE, BEGINNING	37,941,250		37,975,587		29,517,256	
FUND BALANCE, ENDING	<u>\$ 59,938,316</u>		<u>\$ 37,941,250</u>		<u>\$ 37,975,587</u>	

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal	\$ 5,666,312	69.4	\$ 5,557,768	65.4	\$ 5,186,526	61.3
State meal program	434,671	5.3	437,904	5.1	439,204	5.2
Food sales	2,000,614	24.5	2,453,268	28.9	2,773,909	32.8
Other	62,656	0.8	47,856	0.6	55,802	0.7
Total Revenues	<u>8,164,253</u>	<u>100.0</u>	<u>8,496,796</u>	<u>100.0</u>	<u>8,455,441</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	3,473,991	42.6	3,500,098	41.2	3,737,973	44.2
Food	3,275,852	40.1	3,509,868	41.3	3,970,827	47.0
Supplies	129,049	1.5	163,203	1.9	105,960	1.2
Other	389,829	4.8	415,922	4.9	541,524	6.4
Total Expenditures	<u>7,268,721</u>	<u>89.0</u>	<u>7,589,091</u>	<u>89.3</u>	<u>8,356,284</u>	<u>98.8</u>
INCREASE IN FUND BALANCE	<u>895,532</u>	<u>11.0</u>	<u>907,705</u>	<u>10.7</u>	<u>99,157</u>	<u>1.2</u>
OTHER FINANCING USES						
Transfers out	(381,801)	(4.7)	(294,882)	(3.5)	-	0.0
FUND BALANCE, BEGINNING	<u>871,576</u>		<u>258,753</u>		<u>159,596</u>	
FUND BALANCE, ENDING	<u>\$ 1,385,307</u>		<u>\$ 871,576</u>		<u>\$ 258,753</u>	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2010-2011		2009-2010		2008-2009	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	353,307	19.8	409,883	21.3	440,489	23.4
Reduced price	156,335	8.7	193,492	10.0	198,498	10.5
Free	1,278,514	71.5	1,323,241	68.7	1,243,580	66.1
Total Lunches	<u>1,788,156</u>	<u>100.0</u>	<u>1,926,616</u>	<u>100.0</u>	<u>1,882,567</u>	<u>100.0</u>
BREAKFAST						
Paid	31,353	5.2	28,206	4.5	52,196	7.7
Reduced price	41,202	6.9	51,075	8.1	57,526	8.5
Free	526,971	87.9	547,840	87.4	568,473	83.8
Total Breakfast	<u>599,526</u>	<u>100.0</u>	<u>627,121</u>	<u>100.0</u>	<u>678,195</u>	<u>100.0</u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA - State Fiscal Stabilization Funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 27,742,482
ARRA - State Fiscal Stabilization Funds	84,394	6,349,421
Medi-Cal Billing Option	93,778	(578,314)
Total Schedule of Expenditures of Federal Awards		<u>\$ 33,513,589</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2011

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

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INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Orange Unified School District
Orange, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District as of and for the year ended June 30, 2011, which collectively comprise Orange Unified School District's basic financial statements and have issued our report thereon dated November 1, 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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Orange Unified School District in a separate letter dated November 1, 2011.

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

VAD RINCK, TRINAC, DAY & CO, LLP

Rancho Cucamonga, California
November 1, 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**

Governing Board
Orange Unified School District
Orange, California

Compliance

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's major Federal programs for the year ended June 30, 2011. Orange Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

VAU 1219 SK, IRINE, DAY + CO. LLP

Rancho Cucamonga, California
November 1, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Orange Unified School District
 Orange, California

We have audited Orange Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Orange Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified School District's compliance based on our audit.

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

In our opinion, Orange Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	No (see below)
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

We did not perform testing for charter school independent study because it did not meet the materiality threshold.

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

VANDRINEK, TRANE Day & Co, LLP

Rancho Cucamonga, California
November 1, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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ORANGE UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency (ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389 (ARRA)	Title I Grants to Local Educational Agencies Cluster (includes ARRA)
10.555, 10.553	Child Nutrition Cluster
84.027, 84.173, 84.027A, 84.173A, 84.391 (ARRA), 84.392 (ARRA)	Special Education (IDEA) Cluster (includes ARRA)
84.394 (ARRA)	ARRA - State Fiscal Stabilization Fund
93.778	Medi-Cal Assistance Program
	Education Technology State Grants Cluster (includes ARRA)
84.318, 84.386 (ARRA)	Improving Teacher Quality State Grants Cluster
84.367	Title I - School Improvement Grant
84.377	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,005,408</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

Financial Statement Findings

2010-1 30000

Associated Student Body Internal Controls

Finding

We audited a sample of student body funds at eight District school sites to test internal control procedures over cash disbursements, cash receipts, inventory, and minutes of meetings. Findings were noted at three of the eight sites tested, a detailed list of the findings by school site was provided to the District management. A summary of the internal control deficiencies we observed are:

Canyon High School

- Lack of adequate backup on cash receipts found on three of five receipts tested.

Villa Park High School

- Lack of adequate backup on cash receipts found on four of seven receipts tested.

Richland Continuation

- Student funds appeared to have been used for school office expenses which are prohibited by Education Code in one of five expenditures tested.

Recommendation

We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Staff training should take place at least annually, and the emphasis of utilizing District standardized procedures is encouraged.

Current Status

Partially Implemented. See management letter.

ORANGE UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

2010-2 30000

Associated Student Body Internal Controls

Finding

We noted at Villa Park High School, student funds were used to construct a storage shed on school property. The building of this structure circumvented District standard procedures to include bidding, project oversight, and compliance with safety regulations.

Recommendation

We recommend the District develop a procedure where all student fund purchases of equipment, repairs or other major projects are handled through District controls processes.

Current Status

Implemented

2010-3 30000

Local Sales Collection Procedures (30000)

Finding

We noted our testing of cafeteria procedures that local a-la-carte sales activity was not always reconciled to evidence of deposit for all school sites. Our audit covered the period from July 2009 through February 2010. During further testing on activity of March and April 2010, it was noted that a new procedure implemented by the District appears to have corrected the deficiency in control previously noted.

Recommendation

We recommend that the District continue to follow, monitor, and enforce the new procedure to ensure that all activity is properly reconciled and traced to deposits.

Current Status

Implemented



Governing Board
Orange Unified School District
Orange, California

In planning and performing our audit of the financial statements of Orange Unified School District for the year ended June 30, 2011, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 1, 2011, on the financial statements of Orange Unified School District.

ASSOCIATED STUDENT BODY

El Rancho Charter School

Observation

During our audit of the ASB's internal controls over disbursements, we noted the following issues:

Three out of 30 expenditures tested were not appropriate for the ASB. Check #9096 was used to pay for the new furniture for the principal's office. A portion of check #9214 was used to pay for iTunes gift cards. A portion of check #9224 was used to pay for prizes offered for a fundraising event.

Recommendation

It is not the ASB's responsibility to furnish the furniture for school administrators. The funding for this should come from the school's account or the district. ASB is not allowed to give away gift cards since individual students benefit from such gift cards rather than the whole student body. ASB is not allowed to pay for the prizes that are offered for fundraising events, since it is prohibited to gift public funds. The prizes offered should be paid by the vendor that is contracted for the fundraiser.

Governing Board
Orange Unified School District

Canyon High School

Observations

During our review of the associated study body procedures, the following issues were noted:

1. The ASB is currently not issuing a monthly summary/statement to each of its trust accounts for all deposits and expenses taking place in a given month. As a result, trust account advisors are unable to verify if postings made by the ASB bookkeeper are accurate and complete. Additionally, the trust account advisors are unable to verify if their internal records regarding their balances are consistent with amounts reported by the ASB bookkeeper in the ASB's accounting records.
2. A physical inventory count of PE Clothing is being performed; however, a perpetual inventory is not maintained. Therefore, there are no procedures in place to reconcile purchases and sales with the physical inventory.

Recommendations

1. Monthly account activity statements should be prepared and the information should be disseminated to site personnel supervising each of the trust accounts. The statements should include a detailed identification of checks disbursed and also a detailed deposit history. The statements will allow trust account advisors to verify whether records maintained by the ASB bookkeeper are consistent with the internal records and it would allow the trust account advisors to communicate discrepancies, if any. Additionally, the statements would facilitate the planning of activities since the advisors would have a clear understanding of how much funds are available in their accounts.
2. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count of the PE Clothing. A physical inventory should be taken at a minimum, bi-annually, under supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. The site must also maintain a perpetual inventory throughout the year. The site should reconcile the perpetual inventory to the physical counts. This information is necessary to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

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

VADZNIK, IZINS, Day & Co LLP
Rancho Cucamonga, California
November 1, 2011