



ORANGE UNIFIED  
SCHOOL DISTRICT

COUNTY OF ORANGE  
ORANGE, CALIFORNIA

AUDIT REPORT

June 30, 2006

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**NIGRO NIGRO & WHITE, PC**  
A PROFESSIONAL ACCOUNTANCY CORPORATION  
Temecula ♦ San Diego

ORANGE UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2006

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# NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

## Temecula Office

One Ridgeway Drive  
Suite 225

Temecula, CA 92590

Phone: 951.698.8783

Fax: 951.699.1064

## San Diego Office

2727 Camino Del  
Rio South, Suite 219  
San Diego, CA 92108

Phone: 619.270.8222

Fax: 619.260.9085

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Orange Unified School District  
Orange, California

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Orange Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

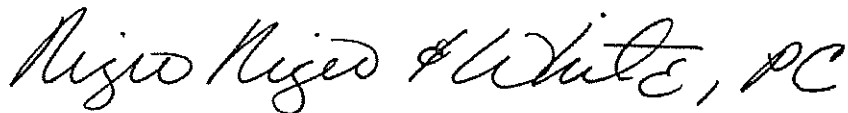
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006 on our consideration of the Orange Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 and budgetary comparisons information on page 49 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

San Diego, California  
September 21, 2006

# **Management's Discussion and Analysis**

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**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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This discussion and analysis of Orange Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's transmittal letter, notes to the basic financial statements and the basic government wide financial statements to enhance their understanding of the District's financial performance.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

**THE FINANCIAL STATEMENTS**

- The comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Orange Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column.
- The major funds for Orange Unified School District are the General Fund and Capital Project Fund for Blended Component Units.
- The Management Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- Revenues increased by \$10,571,581 to a total of \$255,052,138. Total revenues exceeded expenses of \$244,480,577 by \$10,571,581.
- General revenues accounted for \$187,299,759 or 73% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$67,752,379 or 27% of total revenues of \$255,052,138.
- Long-term outstanding debt has increased by \$7,458,007 or 6% due to the establishment of Community Facilities District No. 2005-1.



ORANGE UNIFIED SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2006

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*FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)*

- Enrollment in the District decreased by 758. This has caused funding to decrease.
- The General Fund reported a positive fund balance of \$21,707,629, this is an increase of \$1,988,958 or 10%

*REPORTING THE DISTRICT AS A WHOLE*

*The Statement of Net Assets and the Statement of Activities and Change in Net Assets*

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, 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 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 of this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we separate the District activities as follows:

*Governmental activities* – All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities and the ongoing effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

ORANGE UNIFIED SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2006

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**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.

*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*. These statements provide more detail and additional information, such as cash flows, for proprietary funds. 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 TRUSTEE**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate *Statement of Net Assets and Liabilities*. 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 purpose.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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***THE DISTRICT AS A WHOLE***

*Net Assets*

The District's net assets were \$87.5 million for the fiscal year ended June 30, 2006. Of this amount, \$22.7 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**Table A-1**  
**Orange Unified School District's Net Assets**

	(in millions)		Total Percentage Change 2005-06
	Governmental Activities		
	2005*	2006	
Current and other assets	\$105.3	\$117.2	11%
Capital assets	64.0	65.2	2%
Total assets	\$169.3	\$182.4	8%
Other liabilities	\$23.3	\$20.5	-12%
Long-term liabilities	69.1	\$74.4	8%
Total liabilities	\$92.4	\$94.9	3%
<b>Total net assets</b>	<b>\$76.9</b>	<b>\$87.5</b>	<b>14%</b>

\* Restated for correct presentation of postemployment benefits pre-GASB 45 implementation.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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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 12. 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 A-2**  
**Changes in Orange Unified School District's Net Assets**  
**(In dollars)**

	(in millions)		Total
	Governmental Activities		Percentage
	2005	2006	Change
			2005-06
<b>Revenues:</b>			
<i>Program revenues</i>			
Charges for services	\$11.2	\$11.5	3%
Operating grants and contributions	48.9	53.4	9%
Capital grants and contributions	-	2.8	100%
<i>General revenues</i>			
Property taxes	106.4	109.6	3%
Other revenues	73.9	77.7	5%
<b>Total revenues</b>	<b>240.4</b>	<b>255.0</b>	<b>6%</b>
<b>Expenses:</b>			
Instruction-related	173.5	170.0	-2%
Student support services	21.6	22.8	6%
Maintenance & operations	19.5	24.9	28%
Administration	14.1	10.3	-27%
Other expenses	13.1	16.4	25%
<b>Total expenses</b>	<b>241.8</b>	<b>244.4</b>	<b>1%</b>
<b>Increase in net assets</b>	<b>(\$1.4)</b>	<b>\$10.6</b>	<b>221%</b>

Governmental Activities

As reported in the Statement of Activities on page 12, the cost of all our governmental activities this year was \$244.4 million. However the amount that our taxpayers ultimately financed for these activities through local taxes was only \$109.6 million because the cost was paid by those who benefited from the programs (\$11.5) million or by other governments and organizations who subsidized certain programs with grants and contributions (\$56.2 million).

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2006, the District had \$130.1 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of just over \$.70 million or 1% from last year.

**Table A-4**  
**Orange Unified School District's Capital Assets**  
**(In dollars)**

	(In millions)		Total Percentage Change 2005-06
	2005	2006	
Land	\$19.7	\$19.7	0%
Site Improvements	11.7	13.1	12%
Buildings	76.6	81.3	6%
Equipment and furniture	15.5	13.7	-12%
Work in progress	3.0	2.3	-23%
Total	\$126.5	\$130.1	3%
This year's additions (including work in progress) included in millions:	\$1.0	\$1.1	10%
El Modena Gym	1.2	1.8	50%
Kelly Stadium	0.8	1.4	75%
HVAC (La Veta, Palmyra, McPherson, El Rancho)	0.8	-	-100%
HVAC (McPherson, El Rancho)	-	2.3	230%
Total	\$3.8	\$6.6	74%

This year's additions of \$6.6 million included Kelly Stadium Field and HVAC at McPherson and El Rancho.

Several capital projects are planned for the 2006-07 year. We anticipate capital additions to be \$30 million for the 2006-07 year, including the modernization of 9 schools namely: California Elementary School, Esplanade Elementary School, Fairhaven Elementary School, Jordan Elementary School, Lampson Elementary School, Portola Middle School, Prospect Elementary School, Sycamore Elementary School, and Yorba Middle School.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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At the end of this year, the District has \$74.3 million in long-term debt versus \$69.2 million last year, which is an increase of 7%. Those long term liabilities consisted of:

**Table A-5**  
**Orange Unified School District's Long-Term Debt**  
**(In dollars)**

	2005	2006	Total Percentage Change 2005-06
Certificates of participation	\$52.3	\$52.0	-1%
Compensated absences	2.7	2.9	7%
Capital leases	0.8	0.6	-25%
Special tax revenue bonds	13.3	18.7	41%
Child development portables	0.1	0.1	0%
Total	\$69.2	\$74.3	7%

The overall long-term debt increased from \$69.2 million to \$74.3 million. This is mainly due to the establishment of Community Facilities District No. 2005-1 (Tremont) for \$6,540,000, providing for a special tax to pay for certain public facilities and bonded indebtedness. Compensated absences increased by \$277,175 which agreed with the District's projection and budget allowances. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2006**

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

The total budgeted attendance of 27,211.39 (not including District charter schools) reflects a net decrease of 701.34 ADA in general education, special education, and adult education as compared to 2005/06. This decrease represents a 2.55% decline in ADA as compared to 2005/06. The Budget for 2006/07 includes funding for a cost of living adjustment (COLA) of 5.92%

Expenditures are projected to increase in negotiated salary adjustment and step and column increase for all employees.

	<u>Staffing Ratio</u>
Grades one through three	19:1
Grades K and grades four through six	30:1
Grades seven through twelve	32:1

Class Size Reduction Option One, Grades 1-3; Option Two, Grade K  
 9<sup>th</sup> Grade English and Math Class Size Reduction

The new items specifically addressed in the budget are:

Revenue Limit COLA	5.92%
Revenue Limit Deficit	0%
State COLA	5.92%
Federal COLA	(1%)
Health and Welfare Increase	0%
Employee Salary Increase	
Certificated	0%
Classified	0%
Leadership	0%

***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, Orange, CA 92667, or via e-mail at [jarchibald@orangeusd.k12.ca.us](mailto:jarchibald@orangeusd.k12.ca.us).

# Financial Section

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**ORANGE UNIFIED SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2006**

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	Total Governmental Activities
<b>ASSETS</b>	
Cash	\$ 95,697,145
Accounts receivable	21,134,486
Inventories	295,587
Capital assets:	
Land	19,687,697
Improvement of sites	13,073,074
Buildings	81,277,253
Furniture and equipment	13,703,156
Work in progress	2,319,258
Less accumulated depreciation	<u>(64,813,770)</u>
Total capital assets, net of depreciation	65,246,668
Total assets	<u>\$ 182,373,886</u>
<b>LIABILITIES</b>	
Accounts payable and current liabilities	\$ 19,312,229
Deferred revenues	1,202,488
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation payable	480,000
Capital leases payable	210,338
Other general long-term debt	1,105,000
Child development portables	12,362
Portion due or payable after one year:	
Certificates of participation payable	51,480,000
Capital leases payable	441,507
Child development portables	61,810
Compensated absences payable	2,949,960
Other general long-term debt	<u>17,620,000</u>
Total liabilities	<u>94,875,694</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	42,187,770
Restricted for:	
Capital projects	13,814,302
Debt service	4,090,902
Educational programs	4,683,224
Unrestricted	<u>22,721,994</u>
Total Net Assets	<u>\$ 87,498,192</u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ending June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Instructional Services:						
Instruction	\$ 137,881,773	\$ 5,166,372	\$ 31,340,100	\$ 2,836,245	\$ (98,539,056)	
Instruction-Related Services:						
Supervision of instruction	10,346,146	163,307	6,035,960	-	(4,146,879)	
Instructional library, media and technology	5,482,720	44,276	1,892,927	-	(3,545,517)	
School site administration	16,326,229	1,520,964	474,047	-	(14,331,218)	
Pupil Support Services:						
Home-to-school transportation	6,208,103	249,362	2,262,332	-	(3,696,409)	
Food services	7,369,266	3,228,393	3,927,131	-	(213,742)	
All other pupil services	9,210,275	595,381	1,096,782	-	(7,518,112)	
General Administration Services:						
Data processing services	1,307,761	-	898,170	-	(409,591)	
Other general administration	8,991,580	356,515	2,227,828	-	(6,407,237)	
Plant services	24,954,537	149,674	1,545,029	-	(23,259,834)	
Ancillary services	1,866,516	-	106,036	-	(1,760,480)	
Community services	115,602	-	-	-	(115,602)	
Enterprise activities	1,938	-	-	-	(1,938)	
Interest on long-term debt	3,116,689	-	-	-	(3,116,689)	
Other outgo	11,301,422	12,935	1,622,613	-	(9,665,874)	
<b>Total Governmental Activities</b>	<b>\$ 244,480,557</b>	<b>\$ 11,487,179</b>	<b>\$ 53,428,955</b>	<b>\$ 2,836,245</b>	<b>\$ (176,728,178)</b>	

**General Revenues:**

Taxes:	
Property taxes, levied for general purposes	\$ 108,226,612
Property taxes, levied for special purposes	1,362,643
Federal and state aid not restricted to specific purpose	56,713,679
Interest and investment earnings	2,457,305
Interagency revenues	3,664,938
Miscellaneous	14,874,582
<b>Total general revenues</b>	<b>187,299,759</b>
Change in net assets	10,571,581
Net assets - July 1, 2005, as originally stated	33,289,581
Adjustments for restatement	43,637,030
Net assets - July 1, 2005, as restated	76,926,611
Net assets - June 30, 2006	\$ 87,498,192

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Balance Sheet – Governmental Funds**  
**June 30, 2006**

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	General Fund	Capital Project Fund for Blended Component Units	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 21,737,214	\$ 48,352,119	\$ 19,684,767	\$ 89,774,100
Accounts receivable	12,493,502	-	3,365,985	15,859,487
Inventories	141,160	-	154,427	295,587
Due from other funds	5,641,313	-	1,167,900	6,809,213
<b>Total Assets</b>	<b>\$ 40,013,189</b>	<b>\$ 48,352,119</b>	<b>\$ 24,373,079</b>	<b>\$ 112,738,387</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 15,074,438	\$ -	\$ 1,951,967	\$ 17,026,405
Due to other funds	1,832,176	-	403,244	2,235,420
Deferred revenue	1,398,946	-	3,542	1,402,488
<b>Total Liabilities</b>	<b>18,305,560</b>	<b>-</b>	<b>2,358,753</b>	<b>20,664,313</b>
<b>Fund Balances</b>				
Reserved for:				
Revolving cash	125,000	-	10,000	135,000
Inventories	141,160	-	154,427	295,587
Debt Service	-	-	4,090,902	4,090,902
Categorical programs	4,683,224	-	-	4,683,224
Unreserved:				
General	16,758,245	-	-	16,758,245
Capital projects funds	-	48,352,119	-	48,352,119
Other funds	-	-	17,758,997	17,758,997
<b>Total Fund Balances</b>	<b>21,707,629</b>	<b>48,352,119</b>	<b>22,014,326</b>	<b>92,074,074</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 40,013,189</b>	<b>\$ 48,352,119</b>	<b>\$ 24,373,079</b>	<b>\$ 112,738,387</b>

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2006**

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**Total fund balances - governmental funds** \$ 92,074,074

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$130,060,438 and the accumulated depreciation is \$64,813,770. 65,246,668

Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 5,178,510

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred. (840,083)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in government funds, but are recognized in the government-wide statements, is: 200,000

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Certificates of participation payable	51,960,000	
Capital leases payable	651,845	
Compensated absences	2,949,960	
Other general long-term debt	18,799,172	(74,360,977)

**Total net assets - governmental activities** \$ 87,498,192

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Year Ending June 30, 2006**

	General Fund	Capital Project Fund for Blended Component Units	Other Funds	Total Governmental Funds
<b>REVENUES</b>				
General Revenues:				
Property taxes	\$ 108,226,612	\$ -	\$ -	\$ 108,226,612
Taxes Levied for Other Specific Purposes	536,193	-	826,450	1,362,643
Federal and state aid not restricted to specific purpose	56,513,679	-	-	56,513,679
Earnings on investments	1,836,237	-	621,067	2,457,304
Interagency Revenues	3,664,938	-	-	3,664,938
Miscellaneous	1,270,020	3,240,549	5,226,080	9,736,649
Program Revenues:				
Charges for services	4,127,396	-	7,359,782	11,487,178
Operating grants and contributions	47,246,536	-	6,182,418	53,428,954
Capital grants and contributions	-	-	2,836,245	2,836,245
Total revenues	223,421,611	3,240,549	23,052,042	249,714,202
<b>EXPENDITURES</b>				
Instructional Services:				
Instruction	130,524,686	-	3,776,977	134,301,663
Instruction-Related Services:				
Supervision of instruction	10,077,841	-	-	10,077,841
Instructional library, media and technology	5,340,537	-	-	5,340,537
School site administration	15,109,045	-	793,797	15,902,842
Pupil Support Services:				
Home-to-school transportation	6,047,109	-	-	6,047,109
Food services	166,021	-	7,012,139	7,178,160
All other pupil services	8,971,427	-	-	8,971,427
General Administration Services:				
Data processing services	1,273,847	-	-	1,273,847
Other general administration	7,067,911	-	382,796	7,450,707
Plant services	21,053,294	-	1,344,763	22,398,057
Facility acquisition and construction	316,172	2,883,689	4,240,532	7,440,393
Ancillary services	1,818,111	-	-	1,818,111
Community services	112,604	-	-	112,604
Other outgo	11,404,594	1,724,057	2,586,430	15,715,081
Total Expenditures	219,283,199	4,607,746	20,137,434	244,028,379
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,138,412	(1,367,197)	2,914,608	5,685,823
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the issuance of bonds	-	6,389,580	-	6,389,580
Interfund transfers in	-	-	5,386,985	5,386,985
Interfund transfers out	(2,149,454)	-	(3,503,431)	(5,652,885)
Total Other Financing Sources and Uses	(2,149,454)	6,389,580	1,883,554	6,123,680
Net Change in Fund Balances	1,988,958	5,022,383	4,798,162	11,809,503
Fund Balances, July 1, 2005, as originally stated	19,718,671	43,329,736	35,264,134	98,312,541
Adjustment for restatement	-	-	(18,047,970)	(18,047,970)
Fund Balances, July 1, 2005, as restated	19,718,671	43,329,736	17,216,164	80,264,571
Fund Balances, June 30, 2006	\$ 21,707,629	\$ 48,352,119	\$ 22,014,326	\$ 92,074,074

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

**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 Ending June 30, 2006**

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Total net change in fund balances - governmental funds \$ 11,809,503

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$5,477,641) exceed depreciation expense (\$2,947,294) in the period. 2,530,347

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,626,054

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (1,342,510)

In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is: 200,000

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: (67,124)

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (277,175)

In government funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount. (6,563,384)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 2,655,870

Change in net assets of governmental activities \$ 10,571,581

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

ORANGE UNIFIED SCHOOL DISTRICT  
Statement of Fund Net Assets – Proprietary Funds  
June 30, 2006

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	Governmental Activities
	<u>Internal Service Fund</u>
<b>ASSETS</b>	
Cash	\$ 5,923,045
Accounts receivable	23,028
Due from other funds	412,711
Total assets	<u>\$ 6,358,784</u>
<b>LIABILITIES</b>	
Accounts payable and current liabilities	\$ 1,179,842
Due to other funds	432
Total liabilities	<u>1,180,274</u>
<b>NET ASSETS</b>	
Unrestricted	<u>5,178,510</u>
Total Net Assets	<u>\$ 5,178,510</u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds  
For the Year Ending June 30, 2006**

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	Governmental Activities
	<u>Internal Service Fund</u>
<b>Operating Revenues</b>	
In-district premiums	<u>\$ 3,769,239</u>
<b>Operating Expenses</b>	
Classified salaries	138,159
Employee benefits	41,897
Books and supplies	800
Services and other operating expenditures	<u>1,105,511</u>
 Total Operating Expenses	 <u>1,286,367</u>
 Operating income	 2,482,872
<b>Non-Operating Revenue</b>	
Interest Income	<u>172,997</u>
 Change in Net Assets	 2,655,869
 Total Net Assets - July 1, 2005	 <u>2,522,641</u>
 Total Net Assets - June 30, 2006	 <u><u>\$ 5,178,510</u></u>

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



**ORANGE UNIFIED SCHOOL DISTRICT**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ending June 30, 2006**

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	Governmental Activities: Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from assessments made to other funds	\$ 3,437,255
Cash payments for payroll, insurance and operating costs	<u>(1,480,893)</u>
Net cash provided by operating activities	<u>1,956,362</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>158,729</u>
Net increase in cash	2,115,091
Cash, July 1, 2005	<u>3,807,954</u>
Cash, June 30, 2006	<u><u>\$ 5,923,045</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,482,872
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase in internal activity	(331,984)
Increase in accounts payable and current liabilities	<u>(194,526)</u>
Net cash provided by operating activities	<u><u>\$ 1,956,362</u></u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets – Fiduciary Funds**  
**June 30, 2006**

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	Trust Fund	Agency Funds	
	Retiree Benefits Fund	Student Body Funds	Total
<b>Assets</b>			
Cash	\$ 17,739,110	\$ 1,452,361	\$ 19,191,471
Accounts Receivable	72,049	-	72,049
Due from Other Funds	265,898	-	265,898
<b>Total Assets</b>	<b>\$ 18,077,057</b>	<b>\$ 1,452,361</b>	<b>\$ 19,529,418</b>
<b>Liabilities</b>			
Accounts Payable	\$ 7,111	\$ -	\$ 7,111
Due to Other Funds	5,251,970	-	5,251,970
Due to Student Groups	-	1,452,361	1,452,361
<b>Total Liabilities</b>	<b>5,259,081</b>	<b>1,452,361</b>	<b>6,711,442</b>
<b>Net Assets</b>	<b>\$ 12,817,976</b>	<b>\$ -</b>	<b>\$ 12,817,976</b>

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Statement of Changed in Fiduciary Net Assets -- Fiduciary Funds**  
**For the Year Ending June 30, 2006**

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	Trust Fund
	<u>Retiree Benefits Fund</u>
<b>ADDITIONS</b>	
Interest	\$ 739,758
Transfers in from other funds	<u>265,898</u>
Total additions	<u>1,005,656</u>
<b>DEDUCTIONS</b>	
Payments to retirees	<u>6,235,650</u>
Change in net assets	(5,229,994)
Net assets - July 1, 2005	<u>18,047,970</u>
Net assets - June 30, 2006	<u><u>\$ 12,817,976</u></u>

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

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

A. Accounting Policies

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

B. Reporting Entity

The Orange Unified School District and the Orange Unified School District Financing Corporation and the Orange Schools Community Facilities District have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, as amended by GASB 39, *The Financial Reporting Entity*, for inclusion of the corporations as a component unit of the District. Accordingly, the financial activities of the component units will be included in the financial statements of the District.

The CFD's were created for the sole purpose of financing the purchase, construction, expansion or rehabilitation of certain real and other tangible property with an estimated useful life of five years or longer, including elementary and secondary school sites and structures, and other governmental facilities which the District is authorized by law to contract, own or operate in order to meet increased demands placed upon the District as a result of developments or rehabilitation occurring within the areas covered by CFD Numbers 88-1, 89-1, 89-2 and 2005-1.

The following are those aspects of the relationship between the District and the corporations that satisfy GASB Statement No. 14 criteria.

*Accountability:*

1. The District's Board of Trustees appointed the corporations' board of directors.
2. The District is able to impose its will upon the corporations, based on the following:
  - a. All major financing arrangements, contracts, and other transactions of the corporations must have the consent of the District.
  - b. The District exercises significant influence over operations of the corporations, as the District is the sole lessee of all facilities owned by the corporations. Likewise, the District's lease payments are the major revenue source of the corporations.

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

B. Reporting Entity (continued)

*Accountability (continued):*

3. The corporations provide specific financial benefits or impose specific financial burdens on the District, based on the following:
  - a. Any deficits incurred by the corporations will be reflected in the lease payments of the District.
  - b. Any surpluses of the corporations revert to the District at the end of the lease period.
  - c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the corporations.

*Scope of Public Service:*

Both corporations are nonprofit, public benefit corporations incorporated under the laws of the State of California and recorded by the Secretary of State. The corporations were formed for the sole purpose of providing financial assistance to the District for the financing of construction and acquisition of major capital facilities and modernization of existing school sites. The District will lease certain school facilities from the corporations under a lease-purchase agreement.

*Financial Presentation:*

For financial presentation purposes, the corporations' financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the corporations' financial activity within the Capital Projects Fund. Certificates of Participation and Bonded Debt issued by the corporations will be included in the long-term liabilities on the Statement of Net Assets.

C. Basis of Presentation

*Government-wide Financial Statements:*

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

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Basis of Presentation (continued)

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

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

*Fund Financial Statements:*

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

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

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

*Revenues* – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

“Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Basis of Accounting (continued)

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

*Deferred revenue:*

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

E. Fund Accounting

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



ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

E. Fund Accounting (continued)

*Major Governmental Funds:*

The *General Fund* is the general operating fund of the District. It is used to account for all financial resource except those required to be accounted for in another fund.

The *Capital Project Fund* is used for blended component units. It is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities considered blended component unites of the LEA.

*Non-major Governmental Funds:*

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Child Development Fund is used to account for resources committed to child development programs mandated by the district.
3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:

1. The Debt Service Fund is used for the accumulation of resources and the repayment of principal and interest on long-term debt.

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

E. Fund Accounting (continued)

*Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:

1. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
2. The State School Building Lease-Purchase Fund is used to account for State apportionments for the construction, remodeling, or replacing of school buildings.
3. The County School Facilities Fund is used to receive apportionments from the 1998 State School Facilities Fund, the 2002 State School Facilities Fund, or the 2004 State School Facilities Fund for new school facility construction.
4. The Special Reserve Fund for Capital Outlay Projects provides for the accumulation of general fund moneys for capital outlay purposes.

*Proprietary Funds:*

*Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund.

*Fiduciary Funds:*

*Agency Funds* are used to account for assets of others for which the District acts as an agent. The amounts reported for student body funds represent the combined totals of all schools within the District.

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

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

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

4. Deferred Revenue

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

5. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

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

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

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriate for expenditure or amounts legally segregated for a specific future use.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

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

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

I. Revenue Limit/Property Tax (continued)

roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

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

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

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

J. Use of Estimates

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

K. New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements which became effective in the 2005-06 fiscal year.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not.

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

K. New GASB Pronouncements (continued)

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if the legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The Statement requires employers to recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. It also requires certain financial statement disclosures describing the termination benefit arrangement, the cost, and methods of assumptions used to determine the liabilities.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Governmental activities	\$89,774,100
Fiduciary funds	19,191,471
Proprietary funds	<u>5,923,045</u>
Total deposits and investments	<u><u>\$114,888,616</u></u>

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

Deposits and investments as of June 30, 2006 consist of the following:

	Bank & Carrying Balance
Cash in county treasury	\$ 63,929,047
Cash with fiscal agent	48,352,119
Cash awaiting deposit	713,937
Cash in bank	1,758,513
Cash in revolving fund	135,000
	\$ 114,888,616

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.

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

*Cash with Fiscal Agent* – The Orange Schools Community Facilities District deposits its funds with US Bank. The cash is invested in First American Funds Treasury Obligations Fund.

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



ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately \$63,878,898, and an amortized book value of \$63,929,047. The average weighted maturity for this pool is 115 days. The cash is invested in First American Funds Treasury Obligations Fund has an average maturity of one day. The fair value as of June 30, 2006 was \$48,893,639 and the cost was \$48,352,119.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is rated AAA/MR1 by Moody's Investors Service. The First American Treasury Obligations Fund is rated Aaa by Moody's and AAAM by Standards and Poor's.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, the District's bank balance of \$1,893,513 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

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

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2006 consist of the following:

	General Fund	Other Governmental Funds	Internal Service Fund	Totals	Retiree Benefits Trust Fund
Federal Government:					
Categorical aid programs	\$ 4,604,040	\$ 8,625	\$ -	\$ 4,612,665	\$ -
State Government:				-	
Revenue limit	881,934	-	-	881,934	-
Lottery	1,081,645	-	-	1,081,645	-
Categorical aid programs	3,640,505	-	-	3,640,505	-
Other	249,335	2,986,608	-	3,235,943	-
Local:					
Interest	270,214	117,771	23,028	411,013	72,049
Miscellaneous	1,765,829	252,981	-	2,018,810	-
Subtotals	<u>12,493,502</u>	<u>3,365,985</u>	<u>23,028</u>	<u>15,882,515</u>	<u>\$ 72,049</u>
Reconciliation of Fund Statements to Government-wide Statements:					
Receivable from Retiree Benefit Trust Fund	5,251,971	-	-	5,251,971	
Total	<u>\$ 17,745,473</u>	<u>\$ 3,365,985</u>	<u>\$ 23,028</u>	<u>\$ 21,134,486</u>	

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 4 - INTERFUND TRANSACTIONS**

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

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2006 are as follows:

	<u>Due To Other Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Self Insurance Fund</u>	<u>Retiree Benefits Trust Fund</u>	
General Fund	\$ -	\$ 388,911	\$ 432	\$ 5,251,970	\$ 5,641,313
Retiree Benefits Fund	265,898	-	-	-	265,898
Self Insurance Fund	398,378	14,333	-	-	412,711
Other Governmental Funds	1,167,900	-	-	-	1,167,900
	<u>\$ 1,832,176</u>	<u>\$ 403,244</u>	<u>\$ 432</u>	<u>\$ 5,251,970</u>	<u>\$ 7,487,822</u>
Due from the Adult Education fund to the General fund for payroll taxes and indirect costs				\$ 6,123	
Due from the Adult Education fund to the Self Insurance fund for workers compensation				128	
Due from the Child Development fund to the General fund for indirect costs, transportation and employee benefits				136,722	
Due from the Child Development fund to the Self Insurance fund for workers compensation				6,321	
Due from the Child Nutrition fund to the General fund for indirect costs, maintenance costs and employee benefits				244,378	
Due from the Child Nutrition fund to the Self Insurance fund for workers compensation				6,942	
Due from the Capital Facilities fund to the General fund for postage expenditures and employee benefits				1,686	
Due from the Capital Facilities fund to the Self Insurance fund for workers compensation				878	
Due from the Special Reserve fund for Capital Outlay to the General fund for employee benefits				1	
Due from the Special Reserve fund for Capital Outlay to the Self Insurance fund for workers compensation				64	
Due from the Self Insurance fund to the General fund for employee benefits				432	
Due from the Retiree Benefits fund to the General fund for health & welfare retiree costs				5,251,971	
Due from the General fund to the Child Development fund for employee benefits				24,008	
Due from the General fund to the Child Nutrition fund for sales related income				55	
Due from the General fund to the Deferred Maintenance fund for deferred maintenance expenses				1,143,837	
Due from the General fund to the Self Insurance fund for bank interest and workers' compensation				398,378	
Due from the General fund to the Retiree Benefits Trust fund for retiree costs				265,898	
				<u>\$ 7,487,822</u>	

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 4 - INTERFUND TRANSACTIONS (continued)**

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2005-06 fiscal year are as follows:

	<u>Transfers to Other Funds</u>		
	General	Other	
	Fund	Governmental	Total
	<u>Fund</u>	<u>Funds</u>	
Retiree Benefits Trust Fund	\$ -	\$ 265,898	\$ 265,898
Other Governmental Funds	2,149,454	3,237,533	5,386,987
	<u>\$ 2,149,454</u>	<u>\$ 3,503,431</u>	<u>\$ 5,652,885</u>
General Fund transfer to Deferred Maintenance Fund for DMP and OPSC			\$ 1,184,895
General Fund transfer to Retiree Benefits fund for benefits			265,898
General Fund transfer to Special Reserve Fund for Capital Outlay			698,661
County School Facilities Fun to Special Reserve Fund for Capital Outlay			1,624,574
Special Reserve Fund for Capital Outlay transfer to County School Facilities Fund			1,878,857
			<u>\$ 5,652,885</u>

**NOTE 5 – FUND BALANCES**

The following amounts were designated by the Board of Education as follows:

	<u>General Fund</u>
Economic Uncertainties	\$6,642,980
El Rancho	271,278
Non-Resident Tuition	56,127
Schoolsite API Grant Awards	182,186
Schoolsite Carryovers	252,870
Schoolsite/Department Carryovers	576,483
Summer School to Fund 9th Grade CSR	153,543
Negotiations	836,000
	<u>\$8,971,467</u>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2006 is shown below:

	Beginning Balance July 1, 2005	Additions	Deletions	Ending Balance June 30, 2006
Land	\$ 19,687,697	\$ -	\$ -	\$ 19,687,697
Site improvements	11,720,094	1,352,980.00	-	13,073,074
Buildings and improvements	76,582,815	4,724,799	30,361	81,277,253
Furniture and equipment	15,526,204	114,124	1,937,172	13,703,156
Work in progress	3,033,520	-	714,262	2,319,258
<b>Total at historical cost</b>	<b>126,550,330</b>	<b>6,191,903</b>	<b>2,681,795</b>	<b>\$ 130,060,438</b>
Less accumulated depreciation:				
Site improvements	8,517,502	570,618	-	9,088,120
Buildings	43,796,460	1,618,569	30,361	45,384,668
Furniture and equipment	10,175,537	760,107	594,662	10,340,982
<b>Total accumulated depreciation</b>	<b>62,489,499</b>	<b>2,949,294</b>	<b>625,023</b>	<b>64,813,770</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 64,060,831</b>	<b>\$ 3,242,609</b>	<b>\$ 3,306,818</b>	<b>65,246,668</b>

**NOTE 7 - TAX REVENUE ANTICIPATION NOTES**

The District issued \$10,000,000 of Tax Revenue Anticipation Notes dated July 1, 2005 with a yield of 4.0% through the South Coast Local Educational Agencies Pooled Tax and Revenue Anticipation Note Program, sponsored by the California School Boards Association Finance Corporation. The notes matured on June 30, 2006 and yielded 3% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that certain amounts be deposited in a special fund. The monies were required to remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes. Because the set-aside requirements were met, the liability for the notes is considered defeased and is not reflected in these financial statements at June 30, 2006.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 8 – GENERAL LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below.

	Balance July 1, 2005*	Additions	Deductions	Balance June 30, 2006	Amounts Due Within One Year
Certificates of participation	\$ 52,315,000	\$ -	\$ 355,000	\$ 51,960,000	\$ 480,000
Compensated absences	2,672,785	277,175	-	2,949,960	-
Capital leases	832,153	23,384	203,692	651,845	210,338
Special tax revenue bonds	13,240,000	6,540,000	1,055,000	18,725,000	1,105,000
Child development portables	86,534	-	12,362	74,172	12,362
Totals	<u>\$ 69,146,472</u>	<u>\$ 6,840,559</u>	<u>\$ 1,626,054</u>	<u>\$ 74,360,977</u>	<u>\$ 1,807,700</u>

\* The beginning balance was restated \$61,685,000 to exclude post-employment retiree benefits pre-GASB 45 implementation.

A. Certificates of Participation

The agreement dated May 1, 2003, is between the Orange Unified School District as the “lessee” and the Orange Schools Financing Corporation as the “lessor” or “corporation”. The Corporation is a legally separate entity, which was formed for the sole purpose of acquiring equipment and capital outlay and then leasing such items to the district.

The Corporation’s funds for acquiring these items were generated by the issuance of \$53,000,000 of Certificates of Participation (COPs). COPs are long-term debt instruments, which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease Payments – Lease payments are required to be made by the District under the lease agreement each June 1 through June 1, 2029. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 2% to 4.5% for the length of the issuance.

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 8 – GENERAL LONG-TERM DEBT**

A. Certificates of Participation (continued)

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2006, are as follows:

Fiscal Year	Pricipal	Interest	Total
2006-2007	\$ 480,000	\$ 2,335,279	\$ 2,815,279
2007-2008	610,000	2,324,719	2,934,719
2008-2009	370,000	2,309,469	2,679,469
2009-2010	505,000	2,299,293	2,804,293
2010-2011	645,000	2,282,881	2,927,881
2011-2016	5,675,000	10,943,968	16,618,968
2016-2021	10,815,000	9,353,275	20,168,275
2021-2026	17,830,000	6,252,783	24,082,783
2026-2029	15,030,000	1,466,563	16,496,563
	<u>\$ 51,960,000</u>	<u>\$ 39,568,230</u>	<u>\$ 91,528,230</u>

B. Special Tax Revenue Bonds

1996 Issue

On August 8, 1996, the Orange Unified School District Public Financing Authority issued Series A of the Community Facilities District #89-1 Special Tax Revenue Bonds in the amount of \$4,250,000. The issue consisted of serial bonds with stated interest rates ranging from 4.6% to 5.6% and fully maturing on September 1, 2024. The bonds were issued to fund the construction of District facilities. At June 30, 2006, the principal balance outstanding on the bonds was \$2,810,000.

2000 Issue

On March 22, 2000, the Orange Unified School District Public Financing Authority issued \$13,720,000 of Series A of the Community Facilities Districts #88-1 and #89-2 Bonds. The issue consists of serial bonds with stated interest rates ranging from 4.75% to 5.3% and maturing September 1, 2014. The bonds were issued to fund the construction of District facilities. At June 30, 2006 the principal balance outstanding on the bonds was \$10,430,000.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 8 – GENERAL LONG-TERM DEBT**

B. Special Tax Revenue Bonds (continued)

2006 Issue

On January 6, 2006, the Orange Unified School District Public Financing Authority issued \$6,540,000 of the Community Facilities District No. 2005-1 Bonds. The issue consists of: a) serial bonds with a stated interest rate ranging from 3.8% to 5.2% and maturing on September 1, 2021, b) term bond of \$850,000 with a stated interest rate of 5.25% and maturing on September 1, 2025, and c) term bond of \$4,570,000 with a stated interest rate of 5.375% and maturing on September 1, 2036.

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Principial</u>	<u>Interest</u>	<u>Total</u>
2006-2007	\$ 1,105,000	\$ 594,700	\$ 1,699,700
2007-2008	1,165,000	540,191	1,705,191
2008-2009	1,230,000	482,781	1,712,781
2009-2010	1,300,000	420,947	1,720,947
2010-2011	1,370,000	362,166	1,732,166
2011-2016	6,375,000	825,918	7,200,918
2016-2021	595,000	1,592,448	2,187,448
2021-2026	1,015,000	1,398,205	2,413,205
2026-2031	1,595,000	1,071,506	2,666,506
2031-2036	2,380,000	563,032	2,943,032
2036-2037	595,000	31,981	626,981
	<u>\$ 18,725,000</u>	<u>\$ 7,883,875</u>	<u>\$ 26,608,875</u>



ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 8 – GENERAL LONG-TERM DEBT (continued)**

C. Child Development Portables

The District financed the purchase of Child Development Portables through the California Department of Education’s Child Facilities Revolving Fund. The agreement with CDE includes a 0% interest rate for the portable classrooms. During the term of the repayment, the title to the facilities shall be in the name of the State of California. Title shall pass to the District after repayment of all funds. The District bears all the responsibility of maintaining the facilities and keeping the facilities free and clear of any levies, liens and encumbrances.

The loans mature in 2012 and the payments are as follows:

<u>Fiscal Year</u>		
2006-2007	\$	12,362
2007-2008		12,362
2008-2009		12,362
2009-2010		12,362
2010-2011		12,362
2011-2012		<u>12,362</u>
Total	\$	<u>74,172</u>

D. Capital Leases

The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2006-2007	\$ 231,638
2007-2008	231,638
2008-2009	<u>231,638</u>
Total	694,914
Less Amount Representing Interest	<u>(43,068)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 651,846</u>

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

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 9 – JOINT VENTURES**

The Orange School District participates in two joint venture under a joint powers agreement (JPA): (1) The Southern California Relief for property and liability; and , (2) The Schools Alliance for Worker’s Compensation Excess. The relationship between the Orange School District and the JPAs is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPAs arrange for and provide workers’ compensation, property and liability and health insurance for its member school districts. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed audited financial information for the most current year available is as follows:

	Schools Alliance for Workers’ Compensation Excess June 30, 2004	Southern California ReLiEF June 30, 2005
Total Assets	\$ 32,704,218	\$ 31,863,738
Total Liabilities	28,757,793	24,637,393
Fund Balance	<u>\$ 3,946,425</u>	<u>\$ 7,226,345</u>
Total Revenues	\$ 5,867,686	\$ 20,700,857
Total Expenditures	8,885,741	19,376,360
Net Increase/Decrease in Fund Balance	<u>\$ (3,018,055)</u>	<u>\$ 1,324,497</u>

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 10 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 9, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 11 - EMPLOYEE RETIREMENT PLANS**

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

Plan Description and Provisions

**Public Employees' Retirement System (PERS)**

Plan Description

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

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)**

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2005-06 was 9.116%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$4,871,207, \$4,310,186, and \$3,257,665, respectively, which represents 100% of the required contributions for each fiscal year.

**State Teachers' Retirement System (STRS)**

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2005-06 was 9.952% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$8,682,211, \$8,972,649, and \$8,950,709, respectively, and equal 100% of the required contributions for each year.

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of \$4,843,822 to STRS (4.517% of salaries subject to STRS).

ORANGE UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

The District provides postemployment benefits to eligible retired certificated and classified employees in accordance with District employment contracts. The expenditures for postemployment benefits are recognized on a pay-as-you-go basis. The approximate accumulated future liability for the District at June 30, 2006 is estimated to be \$61,685,000 by the actuarial study performed by David P. Kendall, Vice President, The Epler Company. In 2005-06, the District paid \$6,235,650 in benefits to current retirees.

**NOTE 13 – SUBSEQUENT EVENT**

The District issued \$10,000,000 of Tax Revenue Anticipation Notes dated August 1, 2006 through the California Cash Reserve Program, sponsored by the California School Boards Association Finance Corporation. The notes mature on June 30, 2006 and yield 4.5% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements are that certain amounts are to be deposited in a special fund. The monies are required to remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

**NOTE 14 – GASB STATEMENT NO. 45**

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Orange Unified School District beginning in the 2007-08 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2006, the District had commitments with respect to unfinished capital projects of approximately \$1,503,396 million to be paid.

**NOTE 16 – ADJUSTMENTS FOR RESTATEMENT**

The beginning net assets balance was restated to: (1) reverse the liability for postretirement liabilities pre-GASB 45 implementation; and, (2) to report the funds set-aside for postretirement benefits in a Retiree Benefits Trust Fund.

## Required Supplementary Information

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended June 30, 2006**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Revenue Limit Sources	\$ 155,501,556	\$ 151,943,229	\$ 151,943,229	\$ -
Federal	13,476,695	16,175,017	14,343,616	(1,831,401)
Other State	40,958,858	45,845,744	45,361,176	(484,568)
Other Local	12,667,708	11,533,729	11,773,590	239,861
<b>Total Revenues</b>	<b>222,604,817</b>	<b>225,497,719</b>	<b>223,421,611</b>	<b>(2,076,108)</b>
<b>Expenditures</b>				
Certificated Salaries	107,472,020	109,232,812	107,213,509	2,019,303
Classified Salaries	33,187,283	33,739,628	33,717,156	22,472
Employee Benefits	41,789,809	38,620,492	38,613,065	7,427
Books and Supplies	13,180,605	14,188,354	9,484,717	4,703,637
Services and Other Operating Expenditures	20,817,276	20,576,790	18,634,927	1,941,863
Capital Outlay	518,903	719,446	576,421	143,025
Other Outgo	10,502,465	11,159,760	11,035,522	124,238
Direct Support/Indirect Costs	187,350	7,890	7,882	8
<b>Total Expenditures</b>	<b>227,655,711</b>	<b>228,245,172</b>	<b>219,283,199</b>	<b>8,961,973</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,050,894)	(2,747,453)	4,138,412	6,885,865
<b>Other Financing Sources and Uses</b>				
Interfund transfers out	(1,211,792)	(2,149,454)	(2,149,454)	-
<b>Total Other Financing Sources and Uses</b>	<b>(1,211,792)</b>	<b>(2,149,454)</b>	<b>(2,149,454)</b>	<b>-</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,262,686)	(4,896,907)	1,988,958	6,885,865
Fund Balances, July 1, 2005	20,074,692	19,718,672	19,718,671	1
Fund Balances, June 30, 2006	\$ 13,812,006	\$ 14,821,765	\$ 21,707,629	\$ 6,885,864



## Supplementary Information Section

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Balance Sheet – Non-Major Governmental Funds**  
**June 30, 2006**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>										
Cash	\$ 57,785	\$ 690,596	\$ 306,227	\$ 2,542,960	\$ 4,732,723	\$ -	\$ 1,881,982	\$ 5,396,740	\$ 4,075,754	\$ 19,684,767
Accounts receivable	1,625	75,390	744,405	8,506	19,337	-	11,237	2,490,337	15,148	3,365,985
Inventories	-	-	154,427	-	-	-	-	-	-	154,427
Due from other funds	-	24,008	55	1,143,837	-	-	-	-	-	1,167,900
<b>Total Assets</b>	<b>\$ 59,410</b>	<b>\$ 789,994</b>	<b>\$ 1,205,114</b>	<b>\$ 3,695,303</b>	<b>\$ 4,752,060</b>	<b>\$ -</b>	<b>\$ 1,893,219</b>	<b>\$ 7,887,077</b>	<b>\$ 4,090,902</b>	<b>\$ 24,373,079</b>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$ 4,618	\$ 338,649	\$ 783,232	\$ 110,042	\$ 186,752	\$ -	\$ 267	\$ 528,407	\$ -	\$ 1,951,967
Due to other funds	6,252	143,043	251,320	-	2,563	-	-	66	-	403,244
Deferred revenue	3,542	-	-	-	-	-	-	-	-	3,542
<b>Total Liabilities</b>	<b>14,412</b>	<b>481,692</b>	<b>1,034,552</b>	<b>110,042</b>	<b>189,315</b>	<b>-</b>	<b>267</b>	<b>528,473</b>	<b>-</b>	<b>2,358,753</b>
<b>Fund Balances</b>										
Reserved for:										
Revolving cash	-	-	10,000	-	-	-	-	-	-	10,000
Inventories	-	-	154,427	-	-	-	-	-	-	154,427
Debt service	-	-	-	-	-	-	-	-	4,090,902	4,090,902
Unreserved:										
Capital projects funds	-	-	-	-	4,562,745	-	1,892,952	7,358,604	-	13,814,301
Special revenue funds	44,998	308,302	6,135	3,585,261	-	-	-	-	-	3,944,696
<b>Total Fund Balances</b>	<b>44,998</b>	<b>308,302</b>	<b>170,562</b>	<b>3,585,261</b>	<b>4,562,745</b>	<b>-</b>	<b>1,892,952</b>	<b>7,358,604</b>	<b>4,090,902</b>	<b>22,014,326</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 59,410</b>	<b>\$ 789,994</b>	<b>\$ 1,205,114</b>	<b>\$ 3,695,303</b>	<b>\$ 4,752,060</b>	<b>\$ -</b>	<b>\$ 1,893,219</b>	<b>\$ 7,887,077</b>	<b>\$ 4,090,902</b>	<b>\$ 24,373,079</b>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Funds**  
**June 30, 2006**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>										
General Revenues:										
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 826,450	\$ -	\$ 826,450
Earnings on investments	-	-	-	-	183,614	1	9,500	272,334	155,618	621,067
Miscellaneous	-	-	-	-	1,589,664	-	-	199,943	3,436,474	5,226,081
Program Revenues:										
Charges for services	-	4,177,311	3,182,470	-	-	-	-	-	-	7,359,781
Operating grants and contributions	33,408	768,106	4,058,477	1,322,428	-	-	-	-	-	6,182,419
Capital grants and contributions	-	-	-	-	-	-	2,836,244	-	-	2,836,244
<b>Total revenues</b>	<b>33,408</b>	<b>4,945,417</b>	<b>7,240,947</b>	<b>1,322,428</b>	<b>1,773,278</b>	<b>1</b>	<b>2,845,744</b>	<b>1,298,727</b>	<b>3,592,092</b>	<b>23,052,042</b>
<b>EXPENDITURES</b>										
Instructional Services:										
Instruction	16,969	3,760,007	-	-	-	-	-	-	-	3,776,976
School site administration	15,532	778,265	-	-	-	-	-	-	-	793,797
Pupil Support Services:										
Food services	-	-	7,012,140	-	-	-	-	-	-	7,012,140
General Administration Services:										
Other general administration	1,644	122,606	235,000	-	23,546	-	-	-	-	382,796
Plant services	-	29,323	-	1,315,440	-	-	-	-	-	1,344,763
Facility acquisition and construction	-	-	-	355,197	991,802	26	1,207,075	1,686,432	-	4,240,532
Other outgo	-	12,362	-	-	263,461	-	-	15,102	2,295,505	2,586,430
<b>Total Expenditures</b>	<b>34,145</b>	<b>4,702,563</b>	<b>7,247,140</b>	<b>1,670,637</b>	<b>1,278,809</b>	<b>26</b>	<b>1,207,075</b>	<b>1,701,534</b>	<b>2,295,505</b>	<b>20,137,434</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(737)	242,854	(6,193)	(348,209)	494,469	(25)	1,638,669	(402,807)	1,296,587	2,914,608
<b>OTHER FINANCING SOURCES (USES)</b>										
Interfund transfers in	-	-	-	1,414,015	-	-	1,878,857	2,094,113	-	5,386,985
Interfund transfers out	-	-	-	-	-	-	(1,624,574)	(1,878,857)	-	(3,503,431)
<b>Total Other Financing Sources and Uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,414,015</b>	<b>-</b>	<b>-</b>	<b>254,283</b>	<b>215,256</b>	<b>-</b>	<b>1,883,554</b>
<b>Net Change in Fund Balances</b>	<b>(737)</b>	<b>242,854</b>	<b>(6,193)</b>	<b>1,065,806</b>	<b>494,469</b>	<b>(25)</b>	<b>1,892,952</b>	<b>(187,551)</b>	<b>1,296,587</b>	<b>4,798,162</b>
<b>Fund Balances, July 1, 2005</b>	<b>45,735</b>	<b>65,448</b>	<b>176,755</b>	<b>2,519,455</b>	<b>4,068,276</b>	<b>25</b>	<b>-</b>	<b>7,546,155</b>	<b>2,794,315</b>	<b>17,216,164</b>
<b>Fund Balances, June 30, 2006</b>	<b>\$ 44,998</b>	<b>\$ 308,302</b>	<b>\$ 170,562</b>	<b>\$ 3,585,261</b>	<b>\$ 4,562,745</b>	<b>\$ -</b>	<b>\$ 1,892,952</b>	<b>\$ 7,358,604</b>	<b>\$ 4,090,902</b>	<b>\$ 22,014,326</b>

ORANGE UNIFIED SCHOOL DISTRICT  
Combining Balance Sheet – Blended Component Units  
As of June 30, 2006

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	Orange Schools Financing Authority	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Total Blended Component Units
<b>ASSETS</b>					
Investments	\$ 40,177,712	\$ 903,350	\$ 2,618,214	\$ 4,652,843	\$ 48,352,119
Total Assets	<u>\$ 40,177,712</u>	<u>\$ 903,350</u>	<u>\$ 2,618,214</u>	<u>\$ 4,652,843</u>	<u>\$ 48,352,119</u>
<b>FUND BALANCES</b>					
Unreserved:					
Capital projects funds	\$ 40,177,712	\$ 903,350	\$ 2,618,214	\$ 4,652,843	\$ 48,352,119
Total Fund Balances	<u>\$ 40,177,712</u>	<u>\$ 903,350</u>	<u>\$ 2,618,214</u>	<u>\$ 4,652,843</u>	<u>\$ 48,352,119</u>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Blended**  
**Component Units**  
**As of June 30, 2006**

	Orange Schools Financing Authority	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Total Blended Component Units
<b>REVENUES</b>					
General Revenues:					
Taxes levied for other specific purposes	\$ 2,674,775	\$ 383,365	\$ 1,425,449	\$ 175,783	\$ 4,659,372
Earnings on investments	1,073,519	25,418	94,158	62,858	1,255,953
Total revenues	3,748,294	408,783	1,519,607	238,641	5,915,325
<b>EXPENDITURES</b>					
General Administration Services:					
Other general administration	-	15,443	19,336	-	34,779
Facility acquisition and construction	873,533	-	-	1,800,000	2,673,533
Other outgo	2,697,379	365,995	1,335,458	175,378	4,574,210
Total Expenditures	3,570,912	381,438	1,354,794	1,975,378	7,282,522
Excess (Deficiency) of Revenues Over (Under) Expenditures	177,382	27,345	164,813	(1,736,737)	(1,367,197)
<b>OTHER FINANCING SOURCES</b>					
Proceeds from the issuance of bonds	-	-	-	6,389,580	6,389,580
Total Other Financing Sources	-	-	-	6,389,580	6,389,580
Net Change in Fund Balances	177,382	27,345	164,813	4,652,843	5,022,383
Fund Balances, July 1, 2005	40,000,330	876,005	2,453,401	-	43,329,736
Fund Balances, June 30, 2006	\$ 40,177,712	\$ 903,350	\$ 2,618,214	\$ 4,652,843	\$ 48,352,119

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities – Student Body Funds – Summary**  
**As of June 30, 2006**

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	High Schools	Middle Schools	Elementary Schools	Totals
<b>ASSETS</b>				
Cash on hand and in banks	\$ 1,034,276	\$ 242,473	\$ 175,612	\$ 1,452,361
Total Assets	<u>\$ 1,034,276</u>	<u>\$ 242,473</u>	<u>\$ 175,612</u>	<u>\$ 1,452,361</u>
<b>LIABILITIES</b>				
Due to student groups	\$ 1,034,276	\$ 242,473	\$ 175,612	\$ 1,452,361
Total Liabilities	<u>\$ 1,034,276</u>	<u>\$ 242,473</u>	<u>\$ 175,612</u>	<u>\$ 1,452,361</u>

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities -- Student Body Funds -- High Schools**  
**As of June 30, 2006**

	Canyon High School	El Modena High School	Orange High School	Richland High School	Villa Park High School	Career Education Center ROP	Totals
<b>ASSETS</b>							
Cash on hand and in banks	\$ 355,846	\$ 185,715	\$ 224,055	\$ 5,775	\$ 256,234	\$ 6,651	\$ 1,034,276
Total Assets	\$ 355,846	\$ 185,715	\$ 224,055	\$ 5,775	\$ 256,234	\$ 6,651	\$ 1,034,276
<b>LIABILITIES</b>							
Due to student groups	\$ 355,846	\$ 185,715	\$ 224,055	\$ 5,775	\$ 256,234	\$ 6,651	\$ 1,034,276
Total Liabilities	\$ 355,846	\$ 185,715	\$ 224,055	\$ 5,775	\$ 256,234	\$ 6,651	\$ 1,034,276

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities – Student Body Funds – Middle Schools**  
**As of June 30, 2006**

	Cerro Villa Middle School	El Rancho Middle School	Portola Middle School	Yorba Middle School	Totals
<b>ASSETS</b>					
Cash on hand and in banks	\$ 117,313	\$ 84,284	\$ 20,870	\$ 20,006	\$ 242,473
Total Assets	<u>\$ 117,313</u>	<u>\$ 84,284</u>	<u>\$ 20,870</u>	<u>\$ 20,006</u>	<u>\$ 242,473</u>
<b>LIABILITIES</b>					
Due to student groups	\$ 117,313	\$ 84,284	\$ 20,870	\$ 20,006	\$ 242,473
Total Liabilities	<u>\$ 117,313</u>	<u>\$ 84,284</u>	<u>\$ 20,870</u>	<u>\$ 20,006</u>	<u>\$ 242,473</u>



**ORANGE UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Assets and Liabilities – Student Body Funds – Elementary Schools**  
**As of June 30, 2006**

	Anaheim Hills	Cambridge	Canyon Rim	Chapman Hills	Imperial	La Veta	Lampson	Linda Vista	McPherson	Nohl Canyon
<b>ASSETS</b>										
Cash on hand and in banks	\$ 2,352	\$ 841	\$ 15,026	\$ 14,425	\$ 1,744	\$ 29,277	\$ 4,284	\$ 8,457	\$ 19,544	\$ 2,855
Total Assets	\$ 2,352	\$ 841	\$ 15,026	\$ 14,425	\$ 1,744	\$ 29,277	\$ 4,284	\$ 8,457	\$ 19,544	\$ 2,855
<b>LIABILITIES</b>										
Due to student groups	\$ 2,352	\$ 841	\$ 15,026	\$ 14,425	\$ 1,744	\$ 29,277	\$ 4,284	\$ 8,457	\$ 19,544	\$ 2,855
Total Liabilities	\$ 2,352	\$ 841	\$ 15,026	\$ 14,425	\$ 1,744	\$ 29,277	\$ 4,284	\$ 8,457	\$ 19,544	\$ 2,855
<b>ASSETS</b>										
Cash on hand and in banks	\$ 3,884	\$ 24,742	\$ 7,870	\$ 22,509	\$ 3,153	\$ 4,646	\$ 2,542	\$ 4,795	\$ 2,666	\$ 175,612
Total Assets	\$ 3,884	\$ 24,742	\$ 7,870	\$ 22,509	\$ 3,153	\$ 4,646	\$ 2,542	\$ 4,795	\$ 2,666	\$ 175,612
<b>LIABILITIES</b>										
Due to student groups	\$ 3,884	\$ 24,742	\$ 7,870	\$ 22,509	\$ 3,153	\$ 4,646	\$ 2,542	\$ 4,795	\$ 2,666	\$ 175,612
Total Liabilities	\$ 3,884	\$ 24,742	\$ 7,870	\$ 22,509	\$ 3,153	\$ 4,646	\$ 2,542	\$ 4,795	\$ 2,666	\$ 175,612

## ORANGE UNIFIED SCHOOL DISTRICT

### History and Organization

June 30, 2006

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The Orange Unified School District was established in 1953 and is comprised of an area of approximately 108 square miles located in Orange County. There were no changes in the boundaries of the District during the current year. The District is operating 30 elementary schools, 5 middle schools, 4 high schools, one continuation school, one special education facility, and a career education center.

#### GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Kimberlee Nichols	President	2006
Rick Ledesma	Vice President	2006
Wes Poutsma	Clerk	2008
John Ortega	Member	2008
Kathryn A. Moffat	Member	2006
Steve Rocco	Member	2008
Melissa J. Smith	Member	2006

#### DISTRICT ADMINISTRATORS

Thomas A. Godley, Ed.D.,  
*Superintendent*

Jon M. Archibald,  
*Assistant Superintendent, Business Services*

Ed Kisse  
*Assistant Superintendent, Human Resources*

Cheryl Cohen  
*Assistant Superintendent, Educational Services*

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Schedule of Average Daily Attendance**  
**Year Ended June 30, 2006**

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	<u>Second Period Report</u>	<u>Annual Report</u>
<b>Elementary:</b>		
Kindergarten	1,982	1,982
Grades 1 through 6, regular classes	13,367	13,339
Grades 7 and 8, regular classes	2,464	2,444
Home and Hospital	20	20
Special Education	587	593
	<u>18,420</u>	<u>18,378</u>
<b>Secondary:</b>		
Grades 9 Through 12, regular classes	8,354	8,311
Continuation Education	268	268
Home and Hospital	34	34
Special Education	392	393
	<u>9,048</u>	<u>9,006</u>
<b>Classes for Adults:</b>		
Concurrently Enrolled Secondary Students	-	-
Not Concurrently Enrolled	13	13
	<u>13</u>	<u>13</u>
	<u>13</u>	<u>13</u>
<b>Charter Schools:</b>		
	<u>1,015</u>	<u>1,015</u>
<b>Total Average Daily Attendance</b>	<u><u>28,496</u></u>	<u><u>28,412</u></u>
	<u>Hours of Attendance</u>	
<u>Supplemental Instruction Hours</u>		
Elementary	221,757	
High School	244,040	
Charter Schools	22,815	

Average daily attendance 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**  
**Schedule of Instructional Time**  
**June 30, 2006**

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<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2005-2006 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multi-track Year Round</u>	<u>Status</u>
Kindergarten	31,680	36,000	36,000	180	175	Complied
Grades 1-3	43,324	50,400	50,600	180	175	Complied
Grades 4-6	49,774	54,000	54,250	180	175	Complied
Grades 7-8	62,589	54,000	62,760	180	175	Complied
Grades 9-12	62,300	64,800	64,800	180	175	Complied

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.

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 46201 through 46206.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Schedule of Financial Trends and Analysis**  
**Year Ended June 30, 2006**

General Fund	(Budget) 2007***	2006	2005	2004
Revenues and other financing sources	\$ 233,010,085	\$ 223,421,611	\$ 228,935,592	\$ 218,170,752
Expenditures	236,879,940	219,283,199	223,337,812	217,668,494
Other uses and transfers out	1,256,000	2,149,454	1,369,032	1,275,029
Total outgo	238,135,940	221,432,653	224,706,844	218,943,523
Change in fund balance (deficit)	(5,125,855)	1,988,958	4,228,748	(772,771)
Ending fund balance	\$ 16,581,774	\$ 21,707,629	\$ 19,718,671	\$ 15,489,923
Available reserves*	\$ 15,850,646	\$ 16,758,245	\$ 13,539,392	\$ 9,517,659
Available reserves as a percentage of total outgo	6.66%	7.57%	6.03%	4.35%
Total long-term debt	\$ 72,553,277	\$ 74,360,977	\$ 69,146,472	\$ 70,431,359
Average daily attendance at P-2**	26,770	27,471	27,937	27,958

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.

The General Fund balance has increased by \$6,217,706 over the past two years. The fiscal year 2006-07 adopted budget projects a decrease of \$5,125,855 (\$907,599 in available reserves). For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has increased \$3,929,618 over the past two years.

\* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

\*\* Excludes adult education, county education and charter school ADA.

\*\*\* Adopted September 2006

The accompanying notes are an integral part of this schedule.

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Program	10.553	13526	\$ 673,650
National School Lunch	10.555	13523	3,070,496
Total U.S. Department of Agriculture			3,744,146
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB)			
Title I - Grants to Local Educational Agencies, Part A	84.010	13797	4,528,203
Title I - School Improvement	84.010	14417	
Title I - SAIT Corrective Action	84.010A	14579	116,513
Title I - Reading First, Part B	84.357A	14328	1,078,100
Title II - Vocational and Applied Tech	84.243	13929	9,000
Title II - Principal Training	84.367	14344	12,600
Title II - Enhancing Education Through Technology	84.318	14334	89,899
Title II - Enhancing Education Through Technology, Competitive	84.318	14368	76,974
Title II - Part A Impr Teacher Quality	84.367	14341	1,168,020
Title III - Immigrant Ed	84.365	14346	258,721
Title III - Limited English Proficiency	84.365	10084	612,677
Title IV - Safe and Drug Free Schools	84.186	14347	131,894
Title V - Innovative Education	84.298A	13340	72,635
Child Development: PreK Quality Curriculum Materials	N/A	24486	
Child Development: Infant Toddler	93.575	13942	8,094
Child Development: School Age Resource Contract	93.575	13941	6,232
Indian Education	84.060A	10011	58,845
Vocational Programs	84.048	13924	202,612
Child Dev: School-Age Child Care	93.575	13941	4,277
Early Intervention	84.181	23761	86,305
Federal Preschool	84.173	13430	140,195
Preschool Staff Dev, Part B	84.173	13431	2,410
Basic Local Assistance Entitlement, Part B	84.027	13379	4,960,386
Preschool Local Entitlements, Part B	84.027	13682	243,714
Total U.S. Department of Education			13,868,306
U.S. Department of Health & Human Services:			
Passed through California Dept of Health Services:			
Medi-Cal Billing Options	93.778	10013	541,561
Total U.S. Department of Health & Human Services			541,561
Total Expenditures of Federal Awards			\$ 18,154,013

The accompanying notes are an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT  
Schedule of Charter Schools  
Fiscal Year Ended June 30, 2006

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<u>Charter School</u>	<u>Inclusion in Financial Statements</u>
Santiago Charter School	Not Included
El Rancho Charter School	Included

The accompanying notes are an integral part of this schedule.

**ORANGE UNIFIED SCHOOL DISTRICT**

**Reconciliation of Annual Financial and Budget Report With Audited Financial Statements  
Year Ended June 30, 2006**

	Schedule of Long-term Debt	Schedule of Capital Assets
June 30, 2006, annual financial and budget report (SACS) fund balances	\$ 131,643,473	\$ 64,060,831
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Understatement of capital assets	-	3,510,108
Understatement of depreciation expense	-	(2,324,271)
Understatement of compensated absences	277,175	-
Understatement of special revenue bonds	6,540,000	-
Increase in child development portables lease	74,172	-
Overstatement of post-retirement benefits	(63,970,151)	-
Overstatement of capital lease	(203,692)	-
Net adjustments and reclassifications	<u>(57,282,496)</u>	<u>1,185,837</u>
June 30, 2006, audited financial statement fund balances	<u>\$ 74,360,977</u>	<u>\$ 65,246,668</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance as reported on the Unaudited Actuals to the audited financial statements.



ORANGE UNIFIED SCHOOL DISTRICT  
Note to the Supplementary Information  
June 30, 2006

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Schedule of Average Daily Attendance (ADA)**

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

**Schedule of Instructional Time**

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

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

**Schedule of Financial Trends and Analysis**

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

**Schedule of Expenditures of Federal Awards**

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

**Subrecipients**

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

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

## Other Independent Auditors' Reports

# NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

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

Temecula Office  
One Ridgeway Drive  
Suite 225  
Temecula, CA 92590  
Phone: 951.698.8783  
Fax: 951.699.1064

San Diego Office  
2727 Camino Del  
Rio South, Suite 219  
San Diego, CA 92108  
Phone: 619.270.8222  
Fax: 619.260.9085

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Orange Unified School District  
Orange, California

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

We have audited the financial statements of Orange Unified School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

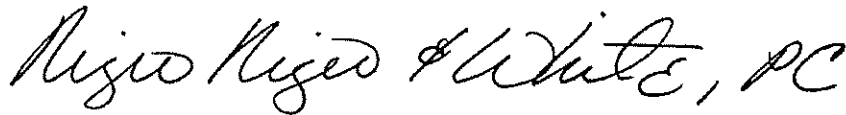
In planning and performing our audit, we considered Orange Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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 non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California  
September 21, 2006

# NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

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

Temecula Office  
One Ridgeway Drive  
Suite 225  
Temecula, CA 92590  
Phone: 951.698.8783  
Fax: 951.699.1064

San Diego Office  
2727 Camino Del  
Rio South, Suite 219  
San Diego, CA 92108  
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Orange Unified School District  
Orange, California

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

### Compliance

We have audited the compliance of Orange Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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; 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 on Orange Unified School District's compliance with those requirements.

In our opinion, Orange Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Orange Unified School District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



San Diego, California  
September 21, 2006

# NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

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

Temecula Office  
One Ridgeway Drive  
Suite 225  
Temecula, CA 92590  
Phone: 951.698.8783  
Fax: 951.699.1064

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Orange, California

## AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Orange Unified School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2005-2006*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	Yes
Adult Education	9	No (see below)
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes

Description	Procedures in the Audit Guide	Procedures Performed
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Not applicable
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Additional Nonclassroom-Based Instruction	1	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable

We did not perform testing for attendance reporting Audit Education or Independent Study because ADA was below the materiality threshold for testing.

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

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

*Riggo Riggo & White, PC*

San Diego, California  
September 21, 2006



## Findings and Questioned Costs Section

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2006**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

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

*Federal Awards*

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555</u>	<u>National School Lunch</u>
<u>84.010</u>	<u>Title I - Grants to LEA's Part A</u>
<u>84.027</u>	<u>Special Ed. - IDEA, Part B</u>
<u>84.173</u>	<u>Special Ed. - IDEA Preschool</u>
<u>84.357</u>	<u>Reading First State Grants</u>
<u>84.367</u>	<u>Teacher Quality Grants</u>

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

*State Awards*

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

ORANGE UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2006

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**Section II – Financial Statement Findings**

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Missassignments
72000	School Accountability Report Card

*There were no financial statement audit findings in 2005-2006.*

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2006**

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**Section III – Federal Award Findings and Questioned Costs**

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

*There were no audit findings and questioned costs related to federal awards during 2005-06.*

ORANGE UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Questioned Costs  
June 30, 2006

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**Section IV – State Award Findings and Questioned Costs**

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

*There were no audit findings and questioned costs related to state awards during 2005-06.*

**ORANGE UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2006**

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*There were no prior audit findings reported in 2004-05.*