

**TUSTIN UNIFIED  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2012**



# **TUSTIN UNIFIED SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2012*

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## ***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Tustin Unified School District  
Tustin, California

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District as of June 30, 2012 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 on our consideration of Tustin Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and budgetary comparison information and schedule of funding progress on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tustin Unified School District's financial statements as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Nigro & Nigro, PC*

December 17, 2012



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2012*

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This discussion and analysis of Tustin Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net assets increased by roughly \$6.0 million, or 1.1% over the course of the year.
- Overall government-wide revenues were \$190.3 million, and overall expenditures were \$184.3 million.
- The total cost of basic programs was \$184.3 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$144.9 million.
- The District decreased its outstanding long-term debt \$7.3 million or 5.3%. This was primarily due to the payoff of the COPs.
- Average daily attendance (ADA) in grades K-12 increased by 528, or 2.4%.

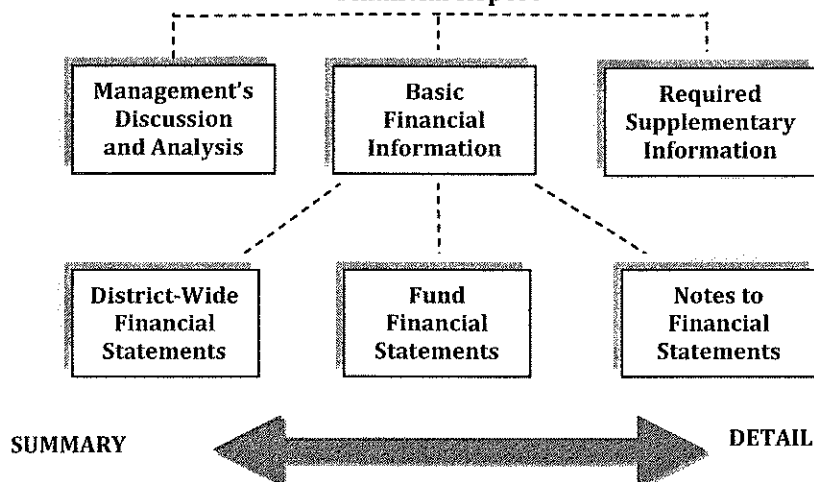
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**Figure A-1. Organization of Tustin Unified School District's Annual Financial Report**



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2012*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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

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

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

## TUSTIN UNIFIED SCHOOL DISTRICT

### *Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2012*

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#### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

##### District-Wide Statements

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

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

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

##### Fund Financial Statements

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

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

The District has two kinds of funds:

- **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**TUSTIN UNIFIED SCHOOL DISTRICT***Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2012***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Assets.** The District's combined net assets were lower on June 30, 2012, than they were the year before – increasing 1.1% to \$554.5 million. (See Table A-1).

**Table A-1**

	<b>Governmental Activities (In millions)</b>		<b>Variance Increase (Decrease)</b>
	<b>2012</b>	<b>2011*</b>	
Current assets	\$ 180.7	\$ 216.2	\$ (35.5)
Noncurrent assets	1.8	2.0	(0.2)
Capital assets	517.4	483.8	33.6
<b>Total assets</b>	<b>699.9</b>	<b>702.0</b>	<b>(2.1)</b>
Current liabilities	16.1	16.9	(0.8)
Long-term liabilities	129.3	136.6	(7.3)
<b>Total liabilities</b>	<b>145.4</b>	<b>153.5</b>	<b>(8.1)</b>
Net assets			
Invested in capital assets, net of related debt	417.2	416.6	0.6
Restricted	102.1	88.7	13.4
Unrestricted	35.2	43.2	(8.0)
<b>Total net assets</b>	<b>\$ 554.5</b>	<b>\$ 548.5</b>	<b>\$ 6.0</b>

\*As restated

**Changes in net assets, governmental activities.** The District's total revenues decreased 9.5% to \$190.3 million (See Table A-2). The decrease is due primarily to reduction in capital grants.

The total cost of all programs and services decreased 4.6% to \$184.3 million. The District's expenses are predominantly related to educating and caring for students, 75.1%. The purely administrative activities of the District accounted for just 3.9% of total costs. A significant contributor to the decrease in costs was the reduction in interest paid on long term debt.

**Table A-2**

	<b>Governmental Activities (In millions)</b>		<b>Variance Increase (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
Total Revenues	\$ 190.3	\$ 210.3	\$ (20.0)
Total Expenses	184.3	193.1	(8.8)
Increase (decrease) in net assets	<b>\$ 6.0</b>	<b>\$ 17.2</b>	<b>\$ (11.2)</b>

## TUSTIN UNIFIED SCHOOL DISTRICT

### *Management's Discussion and Analysis (Unaudited)* *For the Fiscal Year Ended June 30, 2012*

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#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$165.9 million, which is below last year's ending restated fund balance of \$200.1 million. The primary cause of the decreased fund balance is from capital expenditures related to facility acquisition and construction.

#### General Fund Budgetary Highlights

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

- Revenues – increased by \$5.6 million primarily to reflect federal and state budget actions
- Expenses – decreased about \$9.4 million as a result of District-wide budget actions

While the District's final budget for the General Fund anticipated revenues would exceed expenditures by about \$10.6 million, the actual results for the year show that revenues exceeded expenditures by roughly \$11.8 million. Actual revenues were \$1.1 million less than anticipated, but expenditures were \$2.3 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2012 that will be carried over into the 2012-13 budget.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

By the end of 2011-12 the District had invested \$44.2 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$10.0 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011	
Land	\$ 176.1	\$ 176.1	\$ -
Improvement of sites	18.4	13.6	4.8
Buildings	272.1	194.0	78.1
Equipment	5.5	5.1	0.4
Construction in progress	45.3	94.9	(49.6)
Total	<u>\$ 517.4</u>	<u>\$ 483.7</u>	<u>\$ 33.7</u>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2012*

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Debt**

At year-end the District had \$129.3 million in general obligation bonds, compensated absences, other postemployment benefits and workers' compensation claims – a decrease of 5.3% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	<b>Governmental Activities (In millions)</b>		<b>Variance Increase (Decrease)</b>
	<b>2012</b>	<b>2011*</b>	
General obligation bonds	\$ 118.5	\$ 121.9	\$ (3.4)
Certificates of participation	-	5.0	(5.0)
Workers compensation claims	6.4	6.4	-
Compensated absences	1.3	1.3	-
Other postemployment benefits	3.1	2.0	1.1
<b>Total</b>	<b>\$ 129.3</b>	<b>\$ 136.6</b>	<b>\$ (7.3)</b>

\* As restated

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The Governor signed the *2012-13 Budget Act* on June 27, 2012. Between that date and the end of August 2012, the Legislature also sent over 40 budget-related trailer bills to the Governor. The centerpiece of the budget is the assumption that voters will approve the Governor's tax initiative to temporarily increase the state SUT rate for all taxpayers and PIT rates for upper-income taxpayers. In March, the Governor introduced a revised tax initiative with lower SUT rates for all taxpayers and higher PIT rates on upper-income taxpayers, which subsequently qualified for the November ballot as Proposition 30.

**K-12 Education**

***Spending Roughly Flat***

Once the Governor's tax increase is implemented, per-pupil funding in 2012-13 will decrease slightly from \$7,598 to \$7,530, a drop of less than 1 percent from the prior year. This slight decrease is primarily due to the loss of federal "Education Jobs" funds that were available for school districts to spend in 2010-11 and 2011-12. This 2012-13 per-pupil spending level is about 9 percent less than the prerecession 2007-08 level.

***Mandate Block Grant Adopted***

The 2012-13 budget includes \$167 million for a new discretionary block grant for K-12 mandates. School districts, charter schools, and county offices of education (COEs) may apply for mandate block grant funding. School districts and COEs that choose to participate in the block grant are to receive \$28 per average daily attendance (ADA). In lieu of participating in the block grant, local educational agencies could continue to seek reimbursement for mandated activities through the existing mandates claiming process.

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2012*

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

#### **K-12 Education (continued)**

##### ***Final Shift of Student Mental Health Service Funding***

The budget plan provides an additional \$99 million to complete the shift in responsibility of student mental health services from county mental health agencies to school districts.

##### ***Various Changes to Increase Charter School Access to Facilities and Short-Term Cash***

The budget package includes several changes to existing law that provide charter schools with additional access to facility space and short-term cash.

##### ***Governor Vetoes Funding for Certain K-12 Programs***

In June, the Governor vetoed all funding for the Early Mental Health Initiative, for Proposition 98 savings of \$15 million. In addition, the Governor vetoed \$10 million in non-Proposition 98 funds that would have provided child nutrition funding for private schools and child care centers not eligible for the state's existing child nutrition program. The Governor also vetoed \$8.1 million in one-time Proposition 98 funding for support of regional activities and statewide administration of the Advancement Via Individual Determination program.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2012-13 fiscal year.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (714) 730-7301.

**TUSTIN UNIFIED SCHOOL DISTRICT***Statement of Net Assets**June 30, 2012*

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	Total Governmental Activities
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash	\$ 137,035,853
Investments	7,357,351
Accounts receivable	35,964,529
Inventories	348,383
Total current assets	<u>180,706,116</u>
<b>Noncurrent assets:</b>	
Unamortized debt issuance costs	<u>1,821,178</u>
<b>Capital assets:</b>	
Non-depreciable assets	221,455,351
Depreciable assets	380,617,166
Less accumulated depreciation	<u>(84,715,722)</u>
Total capital assets, net of depreciation	<u>517,356,795</u>
 Total assets	 <u>699,884,089</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	13,668,399
Deferred revenue	<u>2,425,959</u>
Total current liabilities	<u>16,094,358</u>
<b>Long-term liabilities:</b>	
Due within one year	6,161,211
Due after one year	<u>123,088,850</u>
Total long-term liabilities	<u>129,250,061</u>
 Total liabilities	 <u>145,344,419</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	417,193,017
Restricted for:	
Capital projects	78,142,514
Debt service	3,473,480
Categorical programs	13,486,800
Workers' compensation claims	7,090,696
Unrestricted	<u>35,153,163</u>
 Total net assets	 <u>\$ 554,539,670</u>



**TUSTIN UNIFIED SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities:</b>					
Instructional services:					
Instruction	\$ 102,992,914	\$ -	\$ 18,636,783	\$ 3,203,990	\$ (81,152,141)
Instruction-related services:					
Supervision of instruction	4,523,038	-	2,146,086	-	(2,376,952)
Instructional library, media and technology	1,205,838	-	972	-	(1,204,866)
School site administration	11,617,364	-	632,698	-	(10,984,666)
Pupil support services:					
Home-to-school transportation	3,798,255	49,575	516,111	-	(3,232,569)
Food services	6,329,315	1,958,367	5,029,049	-	658,101
All other pupil services	7,878,012	-	3,399,570	-	(4,478,442)
General administration services:					
Data processing services	1,106,734	-	-	-	(1,106,734)
Other general administration	5,997,720	69,790	1,124,952	-	(4,802,978)
Plant services	18,636,774	-	175,992	-	(18,460,782)
Ancillary services	1,156,980	-	1,057,667	-	(99,313)
Community services	1,238,904	-	-	-	(1,238,904)
Interest on long-term debt	5,560,492	-	-	-	(5,560,492)
Other outgo	2,177,197	-	1,339,147	-	(838,050)
Depreciation (unallocated)	10,009,940	-	-	-	(10,009,940)
Total Governmental Activities	\$ 184,229,477	\$ 2,077,732	\$ 34,059,027	\$ 3,203,990	(144,888,728)

**General Revenues:**

Property taxes	83,819,797
Federal and state aid not restricted to specific purpose	61,582,733
Interest and investment earnings	355,173
Transfers	5,143,403
Miscellaneous	13,687
Total general revenues	150,914,793
Change in net assets	6,026,065
Net assets - July 1, 2011, as originally stated	326,141,089
Adjustments for restatements	222,372,516
Net assets - July 1, 2011, as restated	548,513,605
Net assets - June 30, 2012	\$ 554,539,670

**TUSTIN UNIFIED SCHOOL DISTRICT***Balance Sheet – Governmental Funds**June 30, 2012*

	General Fund	Building Fund	County School Facilities Fund	* Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 37,579,900	\$ 9,652,796	\$ 66,959,257	\$ 22,843,900	\$ 137,035,853
Investments	-	-	-	7,357,351	7,357,351
Accounts receivable	34,541,339	4,530	24,703	1,169,253	35,739,825
Due from other funds	658,741	197,070	-	3,927,707	4,783,518
Inventories	326,749	-	-	21,634	348,383
Total Assets	<u>\$ 73,106,729</u>	<u>\$ 9,854,396</u>	<u>\$ 66,983,960</u>	<u>\$ 35,319,845</u>	<u>\$ 185,264,930</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 8,017,248	\$ 3,720,563	\$ 4,334	\$ 430,235	\$ 12,172,380
Due to other funds	4,120,797	252	-	662,469	4,783,518
Deferred revenue	2,425,959	-	-	-	2,425,959
Total Liabilities	<u>14,564,004</u>	<u>3,720,815</u>	<u>4,334</u>	<u>1,092,704</u>	<u>19,381,857</u>
<b>Fund Balances</b>					
Nonspendable	476,749	-	-	21,634	498,383
Restricted	8,364,413	6,133,581	66,979,626	34,205,507	115,683,127
Assigned	32,166,185	-	-	-	32,166,185
Unassigned	17,535,378	-	-	-	17,535,378
Total Fund Balances	<u>58,542,725</u>	<u>6,133,581</u>	<u>66,979,626</u>	<u>34,227,141</u>	<u>165,883,073</u>
Total Liabilities and Fund Balances	<u>\$ 73,106,729</u>	<u>\$ 9,854,396</u>	<u>\$ 66,983,960</u>	<u>\$ 35,319,845</u>	<u>\$ 185,264,930</u>

# TUSTIN UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2012

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Total fund balances - governmental funds \$ 165,883,073

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.

Capital assets at historical cost	602,072,517	
Accumulated depreciation	<u>(84,715,722)</u>	
Net:		517,356,795

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:

(1,496,019)

In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned.

224,704

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included on the statement of net assets are:

1,821,178

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds	118,497,865	
Workers' compensation claims	6,386,000	
Compensated absences	3,104,311	
Other postemployment benefits	<u>1,261,885</u>	<u>(129,250,061)</u>

Total net assets - governmental activities \$ 554,539,670

# TUSTIN UNIFIED SCHOOL DISTRICT

## Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2012

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Revenue limit sources	\$ 120,148,629	\$ -	\$ -	\$ -	\$ 120,148,629
Federal sources	8,436,112	-	-	5,632,140	14,068,252
Other state sources	35,089,540	-	3,203,990	1,816,934	40,110,464
Other local sources	6,765,115	170,297	350,799	9,973,169	17,259,380
Total Revenues	170,439,396	170,297	3,554,789	17,422,243	191,586,725
<b>EXPENDITURES</b>					
Instructional services:					
Instruction	101,852,085	-	-	647,900	102,499,985
Instruction-related services:					
Supervision of instruction	4,477,815	-	-	14,394	4,492,209
Instructional library, media and technology	1,194,799	-	-	-	1,194,799
School site administration	11,497,423	-	-	105,646	11,603,069
Pupil support services:					
Home-to-school transportation	3,797,731	-	-	-	3,797,731
Food services	-	-	-	6,010,674	6,010,674
All other pupil services	7,761,464	-	-	63,257	7,824,721
Ancillary services	1,156,076	-	-	-	1,156,076
Community services	319,686	-	-	915,779	1,235,465
Enterprise activities	-	-	-	5,753	5,753
General administration services:					
Data processing services	1,103,381	-	-	-	1,103,381
Other general administration	6,323,376	-	-	289,682	6,613,058
Plant services	16,873,277	-	-	48,280	16,921,557
Facility acquisition and construction	2,470,978	40,385,823	666,830	2,163,910	45,687,541
Other outgo:					
Transfers between agencies	1,656,773	-	-	-	1,656,773
Debt service - principal	400,000	-	-	8,093,189	8,493,189
Debt service - interest	245,649	-	-	5,227,285	5,472,934
Total Expenditures	161,130,513	40,385,823	666,830	23,585,749	225,768,915
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,308,883	(40,215,526)	2,887,959	(6,163,506)	(34,182,190)
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	-	-	-	3,910,541	3,910,541
Interfund transfers out	(3,910,541)	-	-	-	(3,910,541)
All other financing sources	-	-	-	13,687	13,687
Total Other Financing Sources and Uses	(3,910,541)	-	-	3,924,228	13,687
Net Change in Fund Balances	5,398,342	(40,215,526)	2,887,959	(2,239,278)	(34,168,503)
Fund Balances, July 1, 2011, as originally stated	53,144,383	46,349,107	64,091,667	73,514,915	237,100,072
Adjustments for Restatement	-	-	-	(37,048,496)	(37,048,496)
Fund Balances, July 1, 2011, as restated	53,144,383	46,349,107	64,091,667	36,466,419	200,051,576
Fund Balances, June 30, 2012	\$ 58,542,725	\$ 6,133,581	\$ 66,979,626	\$ 34,227,141	\$ 165,883,073

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

**TUSTIN UNIFIED SCHOOL DISTRICT*****Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2012***

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**Total net change in fund balances - governmental funds** **\$ (34,168,503)**

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. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	44,169,540
Depreciation expense	<u>(10,009,940)</u>
Net	34,159,600

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:

(549,719)

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

8,493,189

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The debt issue costs amortized for the period are:

(68,763)

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

410,210

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:

(425,289)

In governmental funds, accreted interest on general obligation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was:

(520,424)

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

(1,063,911)

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).

7,080

In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned.

(247,405)

**Change in net assets of governmental activities**

**\$ 6,026,065**

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Statement of Net Assets - Fiduciary Funds*  
*June 30, 2012*

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	Agency Funds			Totals
	Student Body Funds	IRC Section 125 Fund	Debt Service Fund for Special Tax Bonds	
<b>Assets</b>				
Cash	\$ 592,047	\$ 40,000	\$ 25,754,389	\$ 26,386,436
Investments	-	-	14,196,796	14,196,796
Inventories	25,569	-	-	25,569
<b>Total Assets</b>	<b>\$ 617,616</b>	<b>\$ 40,000</b>	<b>\$ 39,951,185</b>	<b>\$ 40,608,801</b>
<b>Liabilities</b>				
Due to student groups	\$ 599,482	\$ -	\$ -	\$ 599,482
Accounts payable	18,134	-	-	18,134
Due to employees	-	40,000	-	40,000
Due to bondholders	-	-	39,951,185	39,951,185
<b>Total Liabilities</b>	<b>\$ 617,616</b>	<b>\$ 40,000</b>	<b>\$ 39,951,185</b>	<b>\$ 40,608,801</b>

## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2012*

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#### **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 District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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

##### **Tustin Unified School District Financing Corporation**

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 2001. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated June 1, 2001.

##### **Community Facilities Districts**

On April 18, 1988 the District voted to establish Community Facilities District (CFD) No. 88-1 and to incur bonded indebtedness in an amount not to exceed \$103 million. On April 14, 1997 the District voted to establish CFD No. 97-1 and to incur bonded indebtedness in an amount not to exceed \$110 million. On June 12, 2006, the District voted to establish CFD No. 06-1 and to incur bonded indebtedness in an amount not to exceed \$25 million. On March 26, 2007, the District established CFD No. 07-01 to incur bonded indebtedness in an amount not to exceed \$100 million. On November 28, 2010, the District established CFD No. 07-1, Series 2010 to incur bond indebtedness in an amount not to exceed \$90.5 million. The purpose of the CFDs is to provide for the issuance of bonds to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs to pay the principal and interest on the bonds.

## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2012*

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

##### **B. Reporting Entity (continued)**

###### **Community Facilities Districts (continued)**

The bonds are described in more detail in Note 7C.

###### **Financial Presentation**

The Tustin Unified School District Financing Corporation (the Corporation) financial activity is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Tustin Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Assets* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

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

###### **Manifestations of Oversight**

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

###### **Accountability of Fiscal Matters**

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

###### **Scope of Public Service**

- The component units were created specifically to finance capital improvements for the Tustin Unified School District.

##### **C. Basis of Presentation**

###### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

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 funds 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.



## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2012*

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

##### **C. Basis of Presentation (continued)**

###### **Government-Wide Financial Statements (continued)**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to 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.

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

##### **D. Basis of Accounting**

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

# **TUSTIN UNIFIED SCHOOL DISTRICT**

## *Notes to Financial Statements*

*June 30, 2012*

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

#### **D. Basis of Accounting (continued)**

##### **Revenues - exchange and non-exchange transactions (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 would be recorded as deferred revenue.

##### **Expenses/Expenditures**

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

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

#### **E. Fund Accounting**

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

##### **Governmental Fund Type Definitions**

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

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

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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

##### E. Fund Accounting (continued)

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

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

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

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

##### Major Governmental Funds

The District maintains the following major governmental funds:

**General Fund:** This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains an Adult Education Fund, a Deferred Maintenance Fund, and a Special Reserve Fund for Other Than Capital Outlay Projects. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Adult Education Fund and the Deferred Maintenance Fund do not currently meet the definition of special revenue funds as they are no longer primarily composed of restricted or committed revenue sources. In addition, the Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

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

**County School Facilities Fund:** This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2012*

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

##### **E. Fund Accounting (continued)**

###### **Non-Major Governmental Funds**

###### **Special Revenue Funds:**

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

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

**Special Reserve Fund (Insurance Fund):** This fund is used to account for funds set aside for the District's workers' compensation, medical and dental insurance programs. This fund is reported as an internal service fund on the District's Annual Financial and Budget report.

###### **Capital Projects Funds:**

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

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

**Capital Projects Funds for Blended Component Units:** This fund is used to account for the activity of the certificates of participation and of the Community Facilities Districts.

###### **Debt Service Fund:**

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

###### **Fiduciary Funds**

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

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

**IRC Section 125:** The District also maintains a Section 125 Employee Benefit Plan to hold funds that are collected on behalf of employees for benefits.

**Debt Service Fund for Blended Component Units:** This fund is used to account for the accumulation of resources for, and the repayment of, Community Facility District bonds, interest and related costs.

# **TUSTIN UNIFIED SCHOOL DISTRICT**

## *Notes to Financial Statements*

*June 30, 2012*

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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 required supplementary information section.

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

#### **G. Encumbrances**

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

#### **H. Assets, Liabilities, and Equity**

##### **1. Cash**

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

##### **2. Stores Inventories**

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

##### **3. Capital Assets**

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$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.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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

##### H. Assets, Liabilities, and Equity (continued)

###### 3. Capital Assets (continued)

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

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

###### 4. Deferred Revenue

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

###### 5. Compensated Absences

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

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

###### 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.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2012

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

#### H. Assets, Liabilities, and Equity (continued)

##### 7. Fund Balance Classifications

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

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

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

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

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

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

##### 8. Net Assets

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

#### I. Property Tax

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2012

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

#### 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.

#### J. New GASB Pronouncements

During the 2011-12 fiscal year, the following GASB Pronouncements became effective for the District:

**GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*:** The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in the multiple-employer other postemployment benefit (OPEB) plans. This Statement is not expected to affect the District.

**GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - An Amendment of GASB Statement No. 53*:** The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement is not expected to affect the District.

### NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2012 are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in county treasury	\$ 136,502,355	\$ 25,754,389
Total Pooled Funds	136,502,355	25,754,389
Deposits:		
Cash on hand and in banks	383,498	592,047
Cash in revolving fund	150,000	40,000
Total Deposits	533,498	632,047
Total Cash	\$ 137,035,853	\$ 26,386,436
Investments:		
US Bank Money Market Funds	\$ 7,357,351	5,138,647
US Bank Insurance Policy	-	2,847,038
Union Bank Money Market Funds	-	6,211,111
Total Investments	\$ 7,357,351	\$ 14,196,796



## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2012, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

##### 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. Deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account through December 31, 2012, and other cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, none of the District's bank balance was exposed to custodial credit risk because it was fully FDIC insured.

##### Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2012 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank:			
U.S. Treasury Money Market Funds	\$ 12,495,998	\$ 12,495,998	\$ -
Insurance Policy	2,847,038	-	2,847,038
Union Bank Money Market Funds	6,211,111	6,211,111	-
Total investments	<u>\$ 21,554,147</u>	<u>\$ 18,707,109</u>	<u>\$ 2,847,038</u>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2012, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

##### Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had the following investments that represents more than five percent of the District's net investments.

US Bank Money Market Fund	58%
US Bank Insurance Policy	13%
Union Bank Money Market Funds	29%

#### NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 2,648,448	\$ -	\$ -	\$ 881,068	\$ 3,529,516
State Government:					
Revenue limit	21,559,662	-	-	-	21,559,662
Lottery	1,773,415	-	-	-	1,773,415
Categorical aid programs	7,964,005	-	2,736	244,453	8,211,194
Local:					
Interest	17,947	4,530	21,967	9,438	53,882
Miscellaneous	577,862	-	-	34,294	612,156
Total	<u>\$ 34,541,339</u>	<u>\$ 4,530</u>	<u>\$ 24,703</u>	<u>\$ 1,169,253</u>	<u>\$ 35,739,825</u>

#### 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.

During the 2011-12 fiscal year, the District had interfund transactions between the General Fund and the Adult Education Fund and Deferred Maintenance Fund. As described in Note 1.E and in accordance with GASB Statement No. 54, the Adult Education Fund and Deferred Maintenance Fund are reported within the General Fund in these financial statements, therefore, all interfund activity has been removed from the fund financial statements.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
June 30, 2012

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

**A. Due From/Due To Other Funds**

Individual interfund receivable and payable balances as of June 30, 2012 were as follows:

	Due From Other Funds			
	General Fund	Building Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 197,070	\$ 3,923,727	\$ 4,120,797
Building Fund	252	-	-	252
Non-Major Governmental Funds	658,489	-	3,980	662,469
Total	<u>\$ 658,741</u>	<u>\$ 197,070</u>	<u>\$ 3,927,707</u>	<u>\$ 4,783,518</u>

General Fund due to Building Fund for payroll expenses	\$ 196,493
General Fund due to Building Fund to correct UI	577
General Fund due to Cafeteria Fund for operating costs	988
General Fund due to Cafeteria Fund to correct UI	9,633
General Fund due to Child Development Fund to correct UI	2,565
General Fund due to Self Insurance Fund for workers compensation transfer	563,918
General Fund due to Special Reserve Fund for Capital Outlay Projects special reserve transfer	3,346,623
Building Fund due to General Fund for benefits	252
Cafeteria Fund due to General Fund for indirect costs, health and welfare and other operating costs	606,060
Child Development Fund due to General Fund for salaries and benefits, tax liability, indirect costs and operating costs	52,429
Child Development Fund due to Cafeteria Fund for other operating costs	3,980
Total	<u>\$ 4,783,518</u>

**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 2011-12 fiscal year were as follows:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for redevelopment fees	\$ 3,346,623
General Fund transfer to Self Insurance Fund for workers compensation	563,918
Total	<u>\$ 3,910,541</u>

**TUSTIN UNIFIED SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2012***NOTE 5 – FUND BALANCES****Purpose**

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The District's minimum reserve standard is 3% as per the recommended level for districts with less than 30,000 ADA (California Department of Education) or not less than two months of General Fund operating expenditures, or up to 17% of General Fund expenditures and other financing uses.

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

At June 30, 2012, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	326,749	-	-	21,634	348,383
Total Nonspendable	476,749	-	-	21,634	498,383
<b>Restricted:</b>					
Categorical programs	8,364,413	-	-	-	8,364,413
Child development programs	-	-	-	522,443	522,443
Food service program	-	-	-	4,599,944	4,599,944
Capital projects	-	6,133,581	66,979,626	18,518,944	91,632,151
Debt service	-	-	-	3,473,480	3,473,480
Workers' compensation claims	-	-	-	7,090,696	7,090,696
Total Restricted	8,364,413	6,133,581	66,979,626	34,205,507	115,683,127
<b>Assigned:</b>					
Adult education program	565,383	-	-	-	565,383
Deferred maintenance program	3,354,638	-	-	-	3,354,638
Other assignments	3,955,995	-	-	-	3,955,995
Benefits account	120,000	-	-	-	120,000
Accrued vacation liability	1,261,885	-	-	-	1,261,885
Tier III categorical flex reserves	7,375,415	-	-	-	7,375,415
Tier III restricted balance reserves	4,143,150	-	-	-	4,143,150
Uncertain deficit/ COLA reserves	10,518,312	-	-	-	10,518,312
ERRP reserves	607,160	-	-	-	607,160
School site carryover	264,247	-	-	-	264,247
Total Assigned	32,166,185	-	-	-	32,166,185
<b>Unassigned:</b>					
Reserve for economic uncertainties	17,535,378	-	-	-	17,535,378
Total Unassigned	17,535,378	-	-	-	17,535,378
<b>Total</b>	<b>\$ 58,542,725</b>	<b>\$ 6,133,581</b>	<b>\$ 66,979,626</b>	<b>\$ 34,227,141</b>	<b>\$165,883,073</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
June 30, 2012

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2012 is shown below:

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012
Capital assets not being depreciated:				
Land	\$ 176,147,527	\$ -	\$ -	\$ 176,147,527
Construction in progress	94,906,454	35,376,893	84,975,523	45,307,824
Total capital assets not being depreciated	271,053,981	35,376,893	84,975,523	221,455,351
Capital assets being depreciated:				
Improvement of sites	18,998,255	5,682,311	-	24,680,566
Buildings	256,226,883	86,748,516	1,874,736	341,100,663
Equipment	13,822,233	1,337,343	323,639	14,835,937
Total capital assets being depreciated	289,047,371	93,768,170	2,198,375	380,617,166
Accumulated depreciation for:				
Improvement of sites	(5,419,179)	(942,232)	-	(6,361,411)
Buildings	(62,206,883)	(8,159,892)	(1,328,392)	(69,038,383)
Equipment	(8,728,376)	(907,816)	(320,264)	(9,315,928)
Total accumulated depreciation	(76,354,438)	(10,009,940)	(1,648,656)	(84,715,722)
Total capital assets being depreciated, net	212,692,933	83,758,230	549,719	295,901,444
Governmental activity capital assets, net	\$ 483,746,914	\$ 119,135,123	\$ 85,525,242	\$ 517,356,795

**NOTE 7 – GENERAL LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2012 is shown below:

	Balance, July 1, 2011*	Additions	Deductions	Balance, June 30, 2012	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 109,798,766	\$ -	\$ 3,488,189	\$ 106,310,577	\$ 3,523,792
Accreted Interest	4,324,026	1,547,235	1,026,811	4,844,450	1,336,209
Unamortized Issuance Premium	7,753,048	-	410,210	7,342,838	410,210
Total - GO Bonds	121,875,840	1,547,235	4,925,210	118,497,865	5,270,211
Certificates of Participation	5,005,000	-	5,005,000	-	-
Workers' Compensation Claims	6,386,000	-	-	6,386,000	891,000
Compensated Absences	1,268,965	-	7,080	1,261,885	-
Other Postemployment Benefits	2,040,400	1,063,911	-	3,104,311	-
Totals	\$ 136,576,205	\$ 2,611,146	\$ 9,937,290	\$ 129,250,061	\$ 6,161,211

\* The beginning balance does not include \$257,900,913 of special assessment debt, which has been excluded pursuant to GASB Statement No. 6.

**A. General Obligation Bonds**

**Measure G**

The District authorized bonds at a regularly scheduled election of the registered voters of the District held on November 5, 2002, at which more than 55% of the voters authorized the issuance and sale of \$80 million of general obligation bonds to finance the construction of new facilities, such as multipurpose rooms, renovation and improvements of existing schools and to fund a portion of the cost of the construction of a new elementary school.

**TUSTIN UNIFIED SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2012***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)****Measure L**

On November 4, 2008, an election was held in the District, whereby the voters approved by a 58.5% of the vote Measure “L”, which authorizes the District to issue up to \$95 million of general obligation bonds. The bonds will be used to acquire, construct, renovate, upgrade and provide repair of existing school facilities.

**Build America Bonds**

A portion of the Measure G and Measure L bonds is designated “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. The District is obligated to deposit any cash subsidy payments it receives into the debt service fund for the Bonds.

**Refunding**

The District issued \$8,604,947 of Refunding Bonds in 2005-06. Of the net proceeds, \$8.6 million was placed into an escrow fund for the purpose of paying off a portion of the District’s outstanding Series A bonds in the amount of \$8,160,000. The remaining outstanding Series A bonds are not callable, and will remain outstanding until their scheduled maturity. As a result of the refunding, the District expects to realize over \$900,000 in net savings over the life of the bonds. At June 30, 2012, the principal balance outstanding on the defeased debt was \$8,160,000.

Below is a schedule of bonds issued as of June 30, 2012.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2011	Additions	Deductions	Balance, June 30, 2012
2002A	7/13/2003	2028	2.00% - 5.12%	\$ 15,000,000	\$ 745,000	\$ -	\$ 365,000	\$ 380,000
2002B	6/15/2006	2031	4.25% - 5.12%	17,350,000	10,525,000	-	330,000	10,195,000
Refunding	6/15/2006	2014	3.82% - 4.34%	8,604,947	2,838,442	-	1,047,561	1,790,881
2002C	5/1/2008	2032	4.00% - 5.00%	22,649,972	20,691,768	-	745,628	19,946,140
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	24,998,556	-	-	24,998,556
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	25,000,000	-	1,000,000	24,000,000
2008B	6/9/2011	2037	2.00% - 5.00%	25,000,000	25,000,000	-	-	25,000,000
				<u>\$ 138,603,475</u>	<u>\$ 109,798,766</u>	<u>\$ -</u>	<u>\$ 3,488,189</u>	<u>\$ 106,310,577</u>
				Accreted Interest				
				Refunding	\$ 2,582,546	\$ 231,754	\$ 917,439	\$ 1,896,861
				2002C	932,693	356,199	109,372	1,179,520
				2002D	808,787	959,282	-	1,768,069
					<u>\$ 4,324,026</u>	<u>\$ 1,547,235</u>	<u>\$ 1,026,811</u>	<u>\$ 4,844,450</u>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2012*

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**A. General Obligation Bonds (continued)**

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2012-13	\$ 3,523,792	\$ 6,639,161	\$ 10,162,953
2013-14	2,332,140	6,045,925	8,378,065
2014-15	1,915,857	5,040,908	6,956,765
2015-16	2,390,496	5,239,607	7,630,103
2016-17	2,463,038	5,280,838	7,743,876
2017-22	17,042,087	26,252,289	43,294,376
2022-27	24,835,635	25,714,943	50,550,578
2027-32	31,207,532	14,128,000	45,335,532
2032-37	20,600,000	3,044,759	23,644,759
Total	<u>\$ 106,310,577</u>	<u>\$ 97,386,430</u>	<u>\$ 203,697,007</u>

**B. Certificates of Participation**

On April 24, 2012 the District advance refunded all of its outstanding 2001 certificates of participation, which were originally issued in the amount of \$7,975,000. The pay-off was done by using available cash in the Special Reserve Fund for Capital Outlay. The debt was retired in full and consequently, no liability for the certificates exists at June 30, 2012.

**C. Non-Obligatory Debt**

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$252,787,675 as of June 30, 2012 does not represent debt of the District and, as such, does not appear in the financial statements.

**NOTE 8 – JOINT VENTURES**

The Tustin Unified School District participates in two joint powers agreement (JPA) entities, the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Coastline Regional Occupational Program (CROP). ASCIP provides property and liability insurance for its participating school districts. The Tustin Unified School District pays a premium commensurate with the level of coverage requested. CROP provides student occupational training for its member school districts on an average daily attendance (ADA) basis.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Tustin Unified School District beyond the District's representation on the governing boards.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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#### NOTE 8 – JOINT VENTURES (continued)

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationship between the Tustin Unified School District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes. Current financial information for CROP was not available. Condensed current financial information of the ASCIP JPA is shown below:

	ASCIP June 30, 2012 Unaudited
Total Assets	\$ 273,122,432
Total Liabilities	148,739,028
Net Assets	<u>\$ 124,383,404</u>
Total Revenues	\$ 186,424,038
Total Expenditures	174,073,579
Change in Net Assets	<u>\$ 12,350,459</u>

#### NOTE 9 - COMMITMENTS AND CONTINGENCIES

##### A. State and Federal Allowances, Awards, and Grants

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

##### B. Construction Commitments

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of approximately \$27.4 million.

##### C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2012.

#### NOTE 10 – RISK MANAGEMENT

##### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District participated in the ASCIP public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.



## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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#### NOTE 10 - RISK MANAGEMENT (continued)

##### Workers' Compensation

For fiscal year 2011-12, the District was self-funded for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

##### Employee Medical Benefits

The District has contracted with Aetna to provide employee medical, dental and vision benefits.

##### Claims Liability

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

##### Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

	Workers' Compensation
Liability Balance, July 1, 2010	\$ 3,989,174
Claims and changes in estimates	2,390,153
Claims payments	6,673
Liability Balance, June 30, 2011	6,386,000
Claims and changes in estimates	(5,754)
Claims payments	5,754
Liability Balance, June 30, 2012	\$ 6,386,000
Assets available to pay claims at June 30, 2012	\$ 7,091,118

#### 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 comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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

##### Public Employees' Retirement System (PERS) (continued)

###### Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2011-12	\$ 2,610,329	100%
2010-11	\$ 2,528,304	100%
2009-10	\$ 2,366,329	100%

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

###### Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at [www.calstrs.com](http://www.calstrs.com).

###### Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2011-12	\$ 6,444,394	100%
2010-11	\$ 6,097,120	100%
2009-10	\$ 6,270,301	100%

##### On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$3.3 million to STRS (4.267% of salaries subject to STRS in 2011-12).

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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#### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

##### Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	146
Active plan members*	1,443
Total	<u>1,589</u>

\* As of April 14, 2011 actuarial valuation

The following is a description of the District's current retiree benefit plan. A few current retirees receive benefits to age 70 under prior, grandfathered retiree benefit plans.

	Certificated *	Classified *
Benefit types provided	Medical and dental	Medical and dental
Duration of benefits	To age 65	To age 65
Required service	8 years	5 years
Minimum age	50	50
Dependent coverage	No	No
District contribution %	100%	100%
District cap	Active cap	Active cap

\* Management retirees receive benefits based on the appropriate bargaining unit.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2011-12, the District contributed \$1,142,451.

##### Annual OPEB Cost and Net OPEB Obligation

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

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

Annual Required Contribution (ARC)	\$ 2,202,283
Interest on net OPEB obligation	102,020
Adjustment to ARC	<u>(97,941)</u>
Annual OPEB cost	2,206,362
Contributions made	<u>(1,142,451)</u>
Increase (decrease) in net OPEB obligation	1,063,911
Net OPEB obligation - July 1, 2011	<u>2,040,400</u>
Net OPEB obligation - June 30, 2012	<u>\$ 3,104,311</u>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

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#### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Annual OPEB Cost and Net OPEB Obligation (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011-12 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2010	\$ 1,954,585	71.6%	\$ 1,146,305
2011	\$ 2,204,574	59.5%	\$ 2,040,400
2012	\$ 2,206,362	51.9%	\$ 3,104,311

##### Funded Status and Funding Progress – OPEB Plans

As of April 14, 2011, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$15.2 million and the unfunded actuarial accrued liability (UAAL) was \$15.2 million.

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

##### Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	April 14, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	29 years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	5%
Inflation	3%
Long-term healthcare cost trend rates	4%

## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2012*

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#### **NOTE 13 - ADJUSTMENT FOR RESTATEMENT**

The beginning net assets on the Statement of Activities have been restated by \$222,372,516 to remove the balance of special assessment debt outstanding at June 30, 2011 that was previously included in long-term liabilities less the balance in the CFD debt service fund, which is now reported within a fiduciary fund. As explained in Note 1, this debt is no longer considered debt of the District and has been removed from the financial statements.

The beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance has been restated by \$37,048,496 to remove balances in the Non-Major Governmental Funds associated with the Capital Project Fund for Blended Component Units, which is now reported as a fiduciary fund.

#### **NOTE 14 - SUBSEQUENT EVENT**

##### **General Obligation Bond Election**

On November 6, 2012, voters approved Measure "S", which authorizes the District to issue general obligation bonds of up to \$135 million. As of the date of this audit report, no bonds have been issued pursuant to this election.

#### **NOTE 15 - EFFECT OF STATE OF CALIFORNIA BUDGET CRISIS**

The State of California closed 2011-12 as its fourth consecutive year of deficit spending. Most local education agencies (LEAs) in California are dependent upon the State for most of their funding. The State's fiscal crisis has caused the State to defer apportionments to LEAs for the past several years, with more than 32 percent of current year apportionments being deferred into the following fiscal year. These deferrals create cash flow management issues for LEAs, requiring many agencies to resort to interfund borrowing or the issuance of TRANs to meet short-term cash flow needs.

The Governor's proposed tax initiative (Proposition 30) as passed by California voters, temporarily increases the state sales and use tax (SUT) rate for all taxpayers and the personal income tax (PIT) rates for upper-income taxpayers. If Proposition 30 had been rejected by voters in November, additional "trigger cuts" of approximately \$457 per student would have been enacted during the 2012-13 fiscal year. The passage of Proposition 30 does not guarantee that the State will not make future cuts to education. Most LEAs have been required to make substantial budget cuts over the past few years. Additional cuts to State funding will force LEAs to implement even greater budget reductions, jeopardizing the ability of LEAs to provide key programs and services.

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***Required Supplementary Information***

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	<b>Budgeted Amounts</b>		<b>Actual*</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Pos (Neg)</b>
<b>Revenues</b>				
Revenue Limit Sources	\$ 118,876,963	\$ 120,148,629	\$ 120,148,629	\$ -
Federal Sources	9,624,165	9,211,483	8,436,112	(775,371)
Other State Sources	32,736,044	35,173,444	35,089,540	(83,904)
Other Local Sources	4,716,470	7,021,987	6,732,064	(289,923)
<b>Total Revenues</b>	<b>165,953,642</b>	<b>171,555,543</b>	<b>170,406,345</b>	<b>(1,149,198)</b>
<b>Expenditures</b>				
Certificated Salaries	78,591,319	79,056,548	78,762,093	294,455
Classified Salaries	26,910,588	25,501,849	25,415,714	86,135
Employee Benefits	34,070,385	31,772,524	31,708,408	64,116
Books and Supplies	10,979,558	6,139,456	4,903,861	1,235,595
Services and Other Operating Expenditures	17,255,537	15,867,229	15,289,324	577,905
Capital Outlay	451,384	562,542	562,472	70
Other Outgo	2,093,526	2,012,740	2,012,739	1
<b>Total Expenditures</b>	<b>170,352,297</b>	<b>160,912,888</b>	<b>158,654,611</b>	<b>2,258,277</b>
<b>Excess (Deficiency) of Revenues</b>				
Over (Under) Expenditures	(4,398,655)	10,642,655	11,751,734	1,109,079
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	(1,771,125)	(5,714,530)	(5,714,530)	-
<b>Total Other Financing Sources and Uses</b>	<b>(1,771,125)</b>	<b>(5,714,530)</b>	<b>(5,714,530)</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Other</b>				
Financing Sources Over (Under)				
Expenditures and Other Financing Uses	(6,169,780)	4,928,125	6,037,204	1,109,079
<b>Fund Balances, July 1, 2011</b>	<b>44,659,505</b>	<b>44,659,505</b>	<b>44,659,505</b>	
<b>Fund Balances, June 30, 2012</b>	<b>\$ 38,489,725</b>	<b>\$ 49,587,630</b>	<b>\$ 50,696,709</b>	<b>\$ 1,109,079</b>

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

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2012*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 1, 2009	\$ -	\$ 15,007,855	\$ 15,007,855	0.0%	\$ 109,595,152	14%
April 14, 2011	\$ -	\$ 15,183,435	\$ 15,183,435	0.0%	\$ 103,182,636	15%

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2012*

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### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Budgetary Comparison Schedule**

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

#### **Schedule of Funding Progress**

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

### **NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2012, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code.

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## *Supplementary Information*

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## **TUSTIN UNIFIED SCHOOL DISTRICT**

### *Local Educational Agency Organization Structure*

*June 30, 2012*

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The Tustin Unified School District was established July 1, 1972 upon unification of the Tustin Elementary and Union High School Districts. The District boundaries include the City of Tustin, portions of Santa Ana, the foothills portion of the unincorporated area of Orange County, and portions of the City of Irvine. There were no changes to the District's boundaries during the year. The District operates 18 elementary schools, 5 middle schools, 3 comprehensive high schools, a continuation high school, and an alternative/adult education program.

<b>GOVERNING BOARD</b>		
<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Jonathan Abelow	President	November 2014
Tammie Bullard	Vice President	November 2012
James Laird	Clerk	November 2012
Lynn Davis	Member	November 2014
Francine Scinto	Member	November 2012

#### **DISTRICT ADMINISTRATORS**

Gregory A. Franklin, Ed.D.,  
*Superintendent*

Julie Mitchell, Ed.D.,  
*Chief Personnel Officer*

Kathie Nielsen,  
*Chief Academic Officer*

Anthony Soria,  
*Chief Financial Officer*

Lori Stillings, Ed.D.,  
*Assistant Superintendent, Special Education*

Alex Rojas, Ed.D.,  
*Assistant Superintendent, Administrative Services*

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2012*

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	Second Period Report (Certificate No. 7BAB15A9)	Annual Report (Certificate No. B9F64470)
<b>Elementary:</b>		
Kindergarten	1,619	1,625
Grades 1 through 3	5,271	5,270
Grades 4 through 6	5,237	5,233
Grades 7 and 8	3,367	3,359
Home and hospital	6	6
Special education	419	422
Extended year program	<u>1</u>	<u>1</u>
Total Elementary	<u>15,920</u>	<u>15,916</u>
<b>Secondary:</b>		
Grades 9 through 12, regular classes	6,591	6,547
Continuation education	164	159
Home and hospital	4	4
Special education	210	210
Extended year program	<u>1</u>	<u>1</u>
Total Secondary	<u>6,970</u>	<u>6,921</u>
Total Average Daily Attendance	<u><u>22,890</u></u>	<u><u>22,837</u></u>



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2012*

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Grade Level	1982-83 Minutes		1986-87 Minutes		2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	31,680	29,568	36,000	33,600	35,525	175	Complied
Grade 1	45,520	42,485	50,400	47,040	49,544	175	Complied
Grade 2	45,520	42,485	50,400	47,040	49,544	175	Complied
Grade 3	45,520	42,485	50,400	47,040	49,544	175	Complied
Grade 4	53,790	50,204	54,000	50,400	52,560	175	Complied
Grade 5	53,790	50,204	54,000	50,400	52,560	175	Complied
Grade 6	53,790	50,204	54,000	50,400	58,024	175	Complied
Grade 7	53,790	50,204	54,000	50,400	58,024	175	Complied
Grade 8	53,790	50,204	54,000	50,400	58,024	175	Complied
Grade 9	57,180	53,368	64,800	60,480	61,818	175	Complied
Grade 10	57,180	53,368	64,800	60,480	61,818	175	Complied
Grade 11	57,180	53,368	64,800	60,480	61,818	175	Complied
Grade 12	57,180	53,368	64,800	60,480	61,818	175	Complied

\* Amounts reduced as permitted by Education Code Sections 46201.2(a) and 46201.3(a).

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

General Fund	(Budget) 2013 <sup>3</sup>	2012 <sup>4</sup>	2011	2010
Revenues and other financing sources	\$ 170,446,857	\$ 170,406,345	\$ 167,735,202	\$ 157,131,971
Expenditures	177,458,926	158,654,611	154,526,455	158,489,683
Other uses and transfers out	2,798,828	5,714,530	1,400,896	1,748,835
Total outgo	180,257,754	164,369,141	155,927,351	160,238,518
Change in fund balance (deficit)	(9,810,897)	6,037,204	11,807,851	(3,106,547)
Ending fund balance	\$ 40,855,812	\$ 50,696,709	\$ 44,659,505	\$ 34,145,450
Available reserves <sup>1</sup>	\$ 10,958,246	\$ 17,535,378	\$ 20,372,464	\$ 12,206,301
Available reserves as a percentage of total outgo	6.1%	10.7%	13.1%	7.6%
Total long-term debt	\$ 123,088,850	\$ 129,250,061	\$ 136,576,205	\$ 109,539,163
Average daily attendance at P-2 <sup>2</sup>	23,016	22,890	22,362	21,599

The General Fund balance has increased by approximately \$16.6 million over the past two years. The fiscal year 2012-13 adopted budget projects a decrease of approximately \$9.8 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit during the 2012-13 fiscal year. Long-term debt has increased by \$19.7 million over the past two years.

Average daily attendance has increased by 1,291 over the past two years. The District projects an increase of 126 ADA in 2012-13.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Excludes Adult Education ADA and ROC/P ADA.

<sup>3</sup> Budget as of September 2012

<sup>4</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education Fund, Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2012*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
<b>Federal Programs:</b>				
U.S.Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	\$ 1,259,800	
School Breakfast Program - Especially Needy	10.553	13526	27,761	
National School Lunch Program	10.555	13523	3,079,587	
USDA Donated Foods	10.555	N/A	323,937	
Total Child Nutrition Cluster				\$ 4,691,085
Child Care Food Program:				
CCFP Claims Centers and Family Day Care Homes	10.558	13394	380,980	
CCFP Cash in Lieu of Commodities	10.558	13389	30,602	
Total Child Care Food Programs				411,582
Total U.S.Department of Agriculture				5,102,667
U.S.Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		1,660,714
Title II, Part A, Teacher Quality Local	84.367	14341		401,984
Education Technology Grants Cluster				
Title II, Part D, Enhancing Education Through Technology	84.318	14334	4,540	
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	3,432	
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.386	15126	145,554	
Total Education Technology Grants Cluster				153,526
Title III, Limited English Proficiency	84.365	14346		545,324
Title X, McKinney-Vento Homeless Children Assistance	84.196	14332		25,793
Readiness and Emergency Management for Schools	84.186	14347		170,434
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA)				
Local Assistance Entitlement	84.027	13379	3,248,379	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	77,854	
IDEA Preschool Staff Development, Part B, Section 619	84.173A	13431	1,204	
Preschool Local Entitlement, Part B	84.173A	13682	316,172	
IDEA Early Intervention Grants, Part C	84.173A	23761	61,210	
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.173	14468	194,701	
Total Special Education (IDEA) Cluster				3,899,520
ARRA, State Fiscal Stabilization Fund	84.394	25008		1,857,230
Education Jobs Fund	84.410	25152		1,503,629
Carl Perkins Act - Secondary	84.048	14894		75,188
Total U.S.Department of Education				10,293,342
U.S.Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	336,330	
Medi-Cal Administrative Activities (MAA)	93.788	10060	131,219	
Total Medicaid Cluster				467,549
Child Care and Development Block Grant	93.575	Unknown		314,121
Total U.S. Department of Health & Human Services				781,670
Total Expenditures of Federal Awards				\$ 16,177,679

See accompanying note to supplementary information.

**TUSTIN UNIFIED SCHOOL DISTRICT***Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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	<u>Capital Projects Fund for Blended Component Units</u>
June 30, 2012, annual financial and budget report (SACS) fund balances	\$ 46,048,386
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Removal of CFD debt service activity	<u>(38,692,330)</u>
Net adjustments and reclassifications	<u>(38,692,330)</u>
June 30, 2012, audited financial statement fund balances	<u>\$ 7,356,056</u>

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2012*

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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 reduced by Education Code sections 46201.2(a) and 46201.3(a).

#### **Schedule of Financial Trends and Analysis**

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

#### **Schedule of Expenditures of Federal Awards**

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

#### **Subrecipients**

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

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

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

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***Other Independent Auditors' Reports***

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

Board of Education  
Tustin Unified School District  
Tustin, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District as of and for the year ended June 30, 2012, which collectively comprise Tustin Unified School District's basic financial statements and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting as item 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

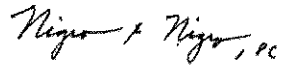
#### Compliance and Other Matters

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

We noted certain matters that we reported to management of Tustin Unified School District in a separate letter dated December 17, 2012.

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

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



December 17, 2012



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

Board of Education  
Tustin Unified School District  
Tustin, California

**Compliance**

We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Tustin Unified School District's major federal programs for the year ended June 30, 2012. Tustin 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 Tustin Unified School District's management. Our responsibility is to express an opinion on Tustin Unified School District's compliance based on our audit.

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

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

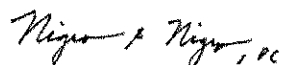
### Internal Control Over Compliance

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

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

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

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



December 17, 2012



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education  
Tustin Unified School District  
Tustin, California

We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, published by the Education Audit Appeals Panel, for the year ended June 30, 2012. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Tustin Unified School District's compliance based on our audit.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with Only One School Serving K-3	4	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

In our opinion, Tustin Unified School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012.

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

*Nigro & Nigro, PC*

December 17, 2012

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## *Findings and Questioned Costs*

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2012*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

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

***Federal Awards***

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(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>
84.394	ARRA: State Fiscal Stabilization Fund
84.410	Education Jobs Fund
10.553, 10.555	Child Nutrition Cluster
84.365	Title III, Limited English Proficiency

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 485,330</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(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>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2012*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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

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

**FINDING 2012-1: BANK ACCOUNTS (30000)**

In reviewing the District's bank accounts and reconciliations, the District has not been reconciling the Worker's Compensation or Summer Recreation Program bank accounts on a monthly basis.

At several ASB locations, bank reconciliations are not being reviewed, performed correctly and/or completed in a timely manner. Currie Middle, Pioneer Middle and Hewes Intermediate do not sign and date reconciliations. CE Utt Middle, Columbus Middle and Beckman High School did not complete bank reconciliations within 30 days of the bank statement date. CE Utt Middle and Beckman High, Foothill High and Tustin High are reconciling statements containing uncleared checks from prior years.

Failure to timely and correctly perform bank reconciliations could permit bank errors or unauthorized activity to occur and go undetected and misstate fiduciary account balances.

**Recommendation:** The District should have an employee assigned to perform bank reconciliations in a timely manner upon the receipt of the bank statement. A separate employee should review the bank reconciliation to ensure accuracy. The Worker's Compensation account should be reconciled to the bank statement and not only the imprest balance.

ASB accounts should be reconciled in a timely manner and reviewed by an advisor. Reconciling items older than six months should be investigated and removed when appropriate.

**District Response:** The District has instructed the employees who are responsible for the Worker's Compensation account to balance the account to the imprest amount and to the bank statement.

The District will assign the task of balancing the summer recreation bank accounts to a 12 month employee, to ensure the accounts are balanced on a monthly basis.

The District will provide additional training to site personnel on bank statement reconciliation. In addition Nigro and Nigro will provide a workshop to employees on cash handling procedures.

**TUSTIN UNIFIED SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2012*

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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., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2011-12.*

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2012*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

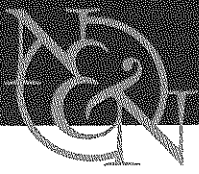
This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

*There were no state award findings or questioned costs in 2011-12.*

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2012*

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2011-1: Bank Accounts</i>	In reviewing the District's bank accounts and reconciliations, the District has not been reconciling the Flex Benefit or Worker's Compensation bank accounts on a monthly basis, nor could the Cafeteria bank account imprest bank reconciliation be located at the time of the audit.	30000	The District should have an employee assigned to perform bank reconciliations in a timely manner upon the receipt of the bank statement. A separate employee should review the bank reconciliation to ensure accuracy.	Partially implemented. , See Finding 2012-1
<i>Finding 2011-2: Attendance</i>	<p>Continuation education programs must use hourly attendance accounting for not more than the scheduled class time. Attendance is capped at 15 hours of ADA per 5-day week and attendance in excess of the capped hours may be carried back.</p> <p>Our review of the continuation bell schedules indicated that the attendance system is synchronized with the regular day bell schedule, but not the alternative schedules. The maximum hours generated is capped at 15 hours of ADA per week. The total weekly ADA is not misstated, but the calculation of available carry-back hours is, which could cause the ADA to be overstated. The information technology department should assist in correcting the system so that one day of attendance generates apportionment hours that correspond to the scheduled time.</p>	10000	The school site should work with the information technology department to ensure all continuation bell schedules have been included in the attendance software. In addition, the District needs to determine the amount of ADA overstated during the fiscal year.	Implemented.

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To the Board of Education  
Tustin Unified School District  
Tustin, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 17, 2012, on the financial statements of Tustin Unified School District.

## ASSOCIATED STUDENT BODY (ASB) FUNDS

**Observation:** At Arnold O. Beckman, Foothill and Tustin High Schools we noted some expenditures had an invoice or contract with a receipt date prior to the approval date, indicating lack of prior approval

**Recommendation:** We recommend that all expenses be authorized by the student representative, ASB advisor, and district representative (usually a principal or vice-principal) prior to the disbursement.

**Observation:** During our testing at Arnold O. Beckman High School, we determined that the Student Council utilizes the bank account to account for administrative items such as transcripts, counseling, exam fees, and shop fees. The fees are posted to this account and forwarded to the District Office.

**Recommendation:** The District Office should allow the Student Council to deposit funds from the specific activities into the District's clearing account as to avoid commingling funds. The District Office will need to obtain adequate supporting documentation for the Student Council to reconcile the account and ensure the funds were deposited intact. We recommend that only ASB funds that will be used for appropriate ASB purposes be deposited into the ASB account.

**Observation:** During our testing at A.G. Currie Middle School, we noted two of five deposits tested were not made until approximately one month after they were received.

**Recommendation:** We recommend that collections at the school be deposited weekly or more often as needed. Money should never be left over the weekend or holidays because many thefts occur during these times.

To the Board of Education  
Tustin Unified School District

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

**Observation:** During our testing at Columbus Tustin Middle School, we noted one disbursement to an OC Animal Care charity by AVID which annually donates to a different charity. At Foothill High School, we noted one disbursement was a donation made to a family. The check was in the amount of \$1631.80.

**Recommendation:** We recommend that a separate trust account is set up specifically for donation to the charity at the beginning of each year so that it is clear what the funds are being collected, held and disbursed for rather than being held in a standard trust account so as not to appear as a gift of public funds.

**Observation:** During our testing at Pioneer Middle School, we noted all five deposits tested were found to be untimely. The deposits were related to collections that took place between October and early December but were not deposited until mid-December.

**Recommendation:** We recommend that collections at the school be deposited weekly or more often as needed. Money should never be left over the weekend or holidays because many thefts occur during these times.

**Observation:** During our testing at Pioneer Middle School, we noted that the school is not submitting financial statements to the District Office on a monthly basis.

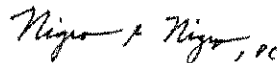
**Recommendation:** We recommend that the financial statements are prepared and be submitted to the District Office on a monthly basis, which will enable the District Office to have proper oversight in a timely manner.

#### **DISTRICT OFFICE**

**Observation:** During our testing at the District Office, we noted that three receipts out of our sample of ten receipts could not be traced to sub-receipts. The three receipts were for lost textbooks from Beckman High and Tustin High, and money collected for adult education for commencement. Without adequate sub-receipts, we cannot determine that all cash collected has been deposited intact.

**Recommendation:** We recommend that the District obtain and keep supporting documentation, including sub receipts.

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



December 17, 2012