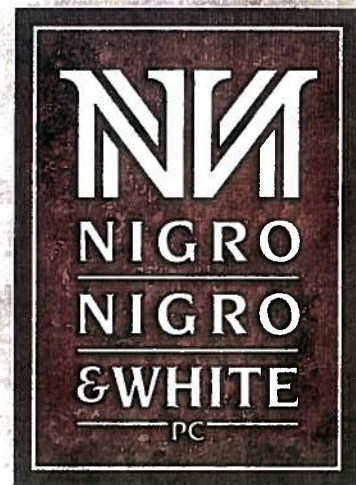


**ORANGE
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2009**



**ORANGE UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
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**ORANGE UNIFIED SCHOOL DISTRICT
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A Professional
Accountancy Corporation

Board of Trustees
Orange Unified School District
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Orange Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2009 on our consideration of the Orange Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13, the required supplementary information on page 56, and the schedules of funding progress and employer contributions on page 57 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nigro Nigro & White, PC

San Diego, California

October 16, 2009

Management's Discussion and Analysis

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ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

This discussion and analysis of Orange Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's transmittal letter, notes to the basic financial statements and the basic government wide financial statements to enhance their understanding of the District's financial performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Revenues decreased by \$4.6 million to a total of \$279.4 million. Total revenues exceeded expenses of \$264.6 million by \$14.8 million.
- General revenues accounted for \$182 million or 65.1% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$97.4 million or 35% of total revenues of \$279.4 million.
- Long-term outstanding debt has decreased by \$4.6 million or 2.4% due to the annual long-term debt payments.

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

- Enrollment in the District increased by 36.
- The General Fund reported a positive fund balance of \$37.9 million; this is an increase of \$8.4 million, or 28.6%.

REPORTING THE DISTRICT AS A WHOLE

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

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

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and retiree health benefits held in trust. The District's fiduciary activities are reported in separate *Statement of Net Assets and Liabilities*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$117.6 million for the fiscal year ended June 30, 2009. Of this amount, unrestricted net assets were \$7.4 million. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table A-1) and changes in net assets (Table A-2) of the District's governmental activities.

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

	(in millions)		Total Percentage Change 2008-09
	Governmental Activities		
	2008	2009	
Current and other assets	\$ 205.1	\$ 194.3	-5%
Capital assets	115.2	136.5	18%
Total assets	320.3	330.8	3%
Other liabilities	24.3	24.6	1%
Long-term liabilities	193.2	188.6	-2%
Total liabilities	217.5	213.2	-2%
Total net assets	\$ 102.8	\$ 117.6	14%

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Changes in Net Assets

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

Table A-2
Changes in Orange Unified School District's Net Assets

	(in millions)		Total
	Governmental Activities		Percentage
	2008	2009	Change
			2008-09
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 12.7	\$ 11.7	-8%
Operating grants and	65.6	72.6	11%
Capital grants and contributions	9.0	13.1	46%
<i>General revenues</i>			
Property taxes	111.9	122.9	10%
Other revenues	84.6	59.1	-30%
Total revenues	<u>283.8</u>	<u>279.4</u>	-2%
Expenses:			
Instruction-related	196.8	196.9	0%
Student support services	26.1	25.9	-1%
Maintenance & operations	18.0	24.0	33%
Administration	12.8	8.7	-32%
Other expenses	8.1	9.1	12%
Total expenses	<u>261.8</u>	<u>264.6</u>	1%
Special items	<u>(11.6)</u>	<u>-</u>	-100%
Increase in net assets	<u>\$ 10.4</u>	<u>\$ 14.8</u>	42%

Governmental Activities

As reported in the Statement of Activities on page 14, the cost of all our governmental activities this year was \$264.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$167.1 million because the cost was paid by those who benefited from the programs (\$11.7 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$85.7 million).

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, as shown in Table A-3 below, the District had \$194.9 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents an increase of just over \$23.5 million or 14% from last year.

Table A-3
Orange Unified School District's Capital Assets

	(In millions)		Total Percentage Change
	Governmental Activities		
	2008	2009	2008-09
Land	\$ 19.7	\$ 19.7	0%
Site Improvements	10.8	10.8	0%
Buildings	74.7	100.0	34%
Equipment and furniture	7.5	9.0	20%
Construction in progress	58.7	55.4	-6%
Total	\$ 171.4	\$ 194.9	14%
This year's additions (including work in progress) included:			
Jordan Elementary	\$ 3.6	\$ 7.0	94%
Sycamore Elementary	1.4	7.4	429%
Portola Middle School	3.4	9.1	168%
Villa Park High School	7.2	8.7	21%
Total	\$ 15.6	\$ 32.2	106%

As of June 30, 2009, the District had invested more than \$136.5 million, net of depreciation, in broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the fiscal year, the District continued the modernization of 11 schools namely: Fairhaven Elementary School, Jordan Elementary School, Lampson Elementary School, Sycamore Elementary School, Cerro Villa Middle School, Portola Middle School, Santiago Charter School, Yorba Middle School, El Modena High School, Orange High School, Villa Park High school. It is anticipated that all of these modernization projects will be completed in the 2009-10 fiscal year.

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At the end of this year, as shown in Table A-4 below, the District has \$188.5 million in long-term debt versus \$193.2 million last year, which is a decrease of 2%. Those long-term liabilities consisted of:

Table A-4
Orange Unified School District's Long-Term Debt
(In millions)

	<u>2008</u>	<u>2009</u>	<u>Total Percentage Change 2008-09</u>
Certificates of participation	\$ 50.9	\$ 50.5	-1%
Compensated absences	2.3	3.1	34%
Capital leases	12.7	11.8	-7%
Special tax revenue bonds	22.4	21.1	-6%
Retiree health benefits bonds	94.8	93.8	-1%
Supplementary retirement plan	10.1	8.2	-18%
Child development portables	-	-	0%
Total	<u>\$ 193.2</u>	<u>\$ 188.5</u>	<u>-2%</u>

The overall long-term debt decreased by \$4.7 million to \$188.5 million. The \$93.8 million in retiree benefits bonds is offset by the net other postemployment benefits (OPEB) asset of \$68.5 million as reported on the Statement of Net Assets on page 14, which resulted from the transfer of the retiree benefits bond proceeds into the Retiree Benefits Fund in 2007-08. Compensated absences increased by \$724,139, which agreed with the District's projection and budget allowances. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total budgeted attendance of 26,950 (not including District charter schools) reflects a net decrease of 33 ADA in general education, special education, and adult education as compared to 2008-09. The Budget for 2009-10 includes funding for a cost of living adjustment (COLA) of 4.25% with a corresponding deficit reduction of 18.355% and a one-time additional cut of \$250 per ADA.

Expenditures are projected to decrease due to reduction in staffing, programs, and proposed compensation reduction of 2% through a combination of monetary adjustments and furlough days.

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

	<u>Staffing Ratio</u>
Grades one through two	24.94:1
Grade K and Grades three through six	30:1
Grades seven through twelve	32:1

The new items specifically addressed in the budget are:

	<u>% Change</u>
Revenue limit cost-of-living adjustment	4.25%
Revenue limit deficit	18.35%
State and federal cost-of-living adjustment	0.00%
Health and welfare increase	0.00%
Employee salary reduction	
Certificated	2.00%
Classified	2.00%
Leadership	2.00%

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in "solutions" - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

**ORANGE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009**

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Enrollment

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

All of these factors were considered in preparing the Orange Unified School District budget for the 2009-10 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Orange Unified School District, 1401 North Handy Street, Orange, CA 92867, or via e-mail at mchristensen@orangeusd.k12.ca.us.

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Financial Section

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ORANGE UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	\$ 98,405,868
Accounts receivable	26,094,881
Inventories	211,275
Prepaid expenses	972,742
Noncurrent assets:	
Net OPEB asset	68,577,265
Capital assets:	
Land	19,687,697
Improvement of sites	10,781,200
Buildings	100,007,901
Furniture and equipment	9,037,908
Construction in progress	55,425,120
Less accumulated depreciation	<u>(58,413,773)</u>
Total capital assets, net of depreciation	<u>136,526,053</u>
Total assets	<u>330,788,084</u>
LIABILITIES	
Current liabilities:	
Accounts payable	21,257,104
Deferred revenue	3,347,139
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation payable	505,000
Capital leases payable	673,868
Retirement health benefits funding bonds	1,100,000
Special tax revenue bonds	1,325,000
Supplementary retirement plan	2,058,534
Child development portables	12,362
Portion due or payable after one year:	
Certificates of participation payable	49,995,000
Capital leases payable	11,126,648
Compensated absences payable	3,077,557
Retirement health benefits funding bonds	92,665,000
Special tax revenue bonds	19,820,000
Supplementary retirement plan	6,175,602
Child development portables	24,724
Total liabilities	<u>213,163,538</u>
NET ASSETS	
Invested in capital assets, net of related debt	61,131,044
Restricted for:	
Capital projects	25,855,783
Debt service	9,887,713
Educational programs	13,383,491
Unrestricted	<u>7,366,515</u>
Total net assets	<u>\$ 117,624,546</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional Services:					
Instruction	\$ 162,096,761	\$ 4,612,159	\$ 46,197,692	\$ 13,099,913	\$ (98,186,997)
Instruction-Related Services:					
Supervision of instruction	10,402,728	118,607	6,284,045	-	(4,000,076)
Instructional library, media and technology	5,861,033	7,935	2,030,762	-	(3,822,336)
School site administration	18,542,537	746,031	498,669	-	(17,297,837)
Pupil Support Services:					
Home-to-school transportation	7,203,025	306,809	2,636,520	-	(4,259,696)
Food services	8,140,426	2,765,302	5,176,298	-	(198,826)
All other pupil services	10,548,686	355,872	2,649,103	-	(7,543,711)
General Administration Services:					
Data processing services	1,553,460	-	624,114	-	(929,346)
Other general administration	7,116,319	193,088	1,421,736	-	(5,501,495)
Plant services	24,016,075	73,293	3,944,422	-	(19,998,360)
Ancillary services	1,675,407	-	75,012	-	(1,600,395)
Community services	99,166	-	-	-	(99,166)
Interest on long-term debt	5,547,300	-	-	-	(5,547,300)
Other outgo	1,768,977	2,555,898	1,033,953	-	1,820,874
Total Governmental Activities	\$ 264,571,900	\$ 11,734,994	\$ 72,572,326	\$ 13,099,913	(167,164,667)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					120,040,008
Property taxes, levied for other specific purposes					2,837,513
Federal and state aid not restricted to specific purpose					50,370,888
Interest and investment earnings					1,515,960
Miscellaneous					7,207,766
			Total general revenues		181,972,135
			Change in net assets		14,807,468
			Net assets - July 1, 2008		102,817,078
			Net assets - June 30, 2009		\$ 117,624,546

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

ORANGE UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 30,086,357	\$ 27,396,821	\$ 33,441,402	\$ 90,924,580
Accounts receivable	25,610,794	21,574	457,343	26,089,711
Due from other funds	447,729	1,969,627	658,908	3,076,264
Inventories	66,202	-	145,073	211,275
Total Assets	\$ 56,211,082	\$ 29,388,022	\$ 34,702,726	\$ 120,301,830
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 10,709,328	\$ 3,532,157	\$ 1,477,266	\$ 15,718,751
Due to other funds	4,179,028	82	2,416,794	6,595,904
Deferred revenue	3,347,139	-	-	3,347,139
Total Liabilities	18,235,495	3,532,239	3,894,060	25,661,794
Fund Balances				
Reserved for:				
Inventories	66,202	-	145,074	211,276
Revolving cash	125,000	-	10,000	135,000
Debt service	-	-	9,887,713	9,887,713
Categorical programs	13,383,491	-	-	13,383,491
Other purposes (expendable)	9,018,955	-	-	9,018,955
Unreserved; reported in:				
General fund	15,381,939	-	-	15,381,939
Capital project funds	-	25,855,783	-	25,855,783
Other funds	-	-	20,765,879	20,765,879
Total Fund Balances	37,975,587	25,855,783	30,808,666	94,640,036
Total Liabilities and Fund Balances	\$ 56,211,082	\$ 29,388,022	\$ 34,702,726	\$ 120,301,830

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

ORANGE UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds \$ 94,640,036

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$194,939,826 and the accumulated depreciation is (\$58,413,773). 136,526,053

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 972,742

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The net OPEB asset at the end of the period was: 68,577,265

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: (552,728)

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:

Certificates of participation payable	\$ 50,500,000	
Other general long-term debt	21,182,086	
Compensated absences payable	3,077,557	
Retirement health benefits funding bonds	93,765,000	
Supplementary retirement plan	8,234,136	
Capital leases payable	11,800,516	(188,559,295)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 6,020,473

Total net assets - governmental activities **\$ 117,624,546**

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 116,155,749	\$ -	\$ 2,596,159	\$ 118,751,908
Federal and state aid not restricted to specific purpose	54,496,501	-	-	54,496,501
Earnings on investments	942,402	292,137	281,422	1,515,961
Miscellaneous	1,223,461	354,484	5,629,822	7,207,767
Program Revenues:				
Charges for services	4,813,931	-	6,921,062	11,734,993
Operating grants and contributions	64,681,760	-	8,188,133	72,869,893
Capital grants and contributions	-	-	13,099,913	13,099,913
Total Revenues	242,313,804	646,621	36,716,511	279,676,936
EXPENDITURES				
Instructional Services:				
Instruction	142,731,219	-	4,443,896	147,175,115
Instruction-Related Services:				
Supervision of instruction	10,134,707	-	31,315	10,166,022
Instructional library, media and technology	5,720,316	-	7,354	5,727,670
School site administration	17,144,049	-	976,567	18,120,616
Pupil Support Services:				
Home-to-school transportation	8,592,610	-	-	8,592,610
Food services	212,461	-	8,041,979	8,254,440
All other pupil services	10,308,048	-	611	10,308,659
General Administration Services:				
Data processing services	1,360,347	-	-	1,360,347
Other general administration	6,498,178	-	435,239	6,933,417
Plant services	21,420,022	-	1,887,195	23,307,217
Facility acquisition and construction	2,455,682	11,261,750	8,475,550	22,192,982
Ancillary services	1,637,285	-	-	1,637,285
Community services	96,909	-	-	96,909
Other outgo:				
Transfers between agencies	1,185,825	-	554,530	1,740,355
Debt service - principal	1,679,628	-	1,795,173	3,474,801
Debt service - interest	2,685,851	1,030	3,428,073	6,114,954
Total Expenditures	233,863,137	11,262,780	30,077,482	275,203,399
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	8,450,667	(10,616,159)	6,639,029	4,473,537
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	87,163	30,812,981	11,925,099	42,825,243
Interfund transfers out	(79,499)	(8,723,678)	(34,022,066)	(42,825,243)
Total Other Financing Sources and Uses	7,664	22,089,303	(22,096,967)	-
Net Change in Fund Balances	8,458,331	11,473,144	(15,457,938)	4,473,537
Fund Balances, July 1, 2008	29,517,256	14,382,639	46,266,604	90,166,499
Fund Balances, June 30, 2009	\$ 37,975,587	\$ 25,855,783	\$ 30,808,666	\$ 94,640,036

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

ORANGE UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2009

Total net change in fund balances - governmental funds \$ 4,473,537

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	\$ 23,588,735	
Depreciation expense	<u>2,215,175</u>	21,373,560

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 3,474,800

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The decrease in the net OPEB asset at the end of the period was: (13,531,444)

Debt proceeds: In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (28,623)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connections with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Expenses incurred on such obligations were: 1,877,679

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: 567,578

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*.) (724,139)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. (2,675,480)

Change in net assets of governmental activities \$ 14,807,468

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2009

	Governmental Activities: Internal Service Fund
	<u> </u>
ASSETS	
Cash	\$ 7,481,288
Due from other funds	688
Other receivables	<u> 5,172</u>
Total Assets	<u> 7,487,148</u>
 LIABILITIES	
Accounts payable and accrued liabilities	1,466,192
Due to other funds	<u> 483</u>
Total liabilities	<u> 1,466,675</u>
 NET ASSETS	
Unrestricted	<u> 6,020,473</u>
Total net assets	<u><u> \$ 6,020,473</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities: Internal Service Fund
	<u>Fund</u>
OPERATING EXPENSES	
Classified salaries	\$ 147,041
Employee benefits	45,455
Books and supplies	(5)
Services and other operating expenditures	<u>2,585,467</u>
Total operating expenses	<u>2,777,958</u>
OPERATING INCOME	(2,777,958)
NON-OPERATING REVENUES	
Interest income	<u>102,478</u>
CHANGE IN NET ASSETS	(2,675,480)
NET ASSETS, JULY 1, 2008	<u>8,695,953</u>
NET ASSETS, JUNE 30, 2009	<u>\$ 6,020,473</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 67,231
Cash payments for payroll, insurance and operating costs	<u>(2,737,124)</u>
Net cash used by operating activities	<u>(2,669,893)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>120,548</u>
Net cash provided by investing activities	<u>120,548</u>
Net decrease in cash	(2,549,345)
Cash, July 1, 2008	<u>10,030,633</u>
Cash, June 30, 2009	<u>\$ 7,481,288</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (2,777,958)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Decrease in internal activity	67,231
Increase in accounts payable and current liabilities	<u>40,834</u>
Net cash used by operating activities	<u>\$ (2,669,893)</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2009

	Trust Fund	Agency Funds	
	Retiree Benefits Fund	Student Body Funds	Total
Assets			
Cash	\$ 2,683,296	\$ 1,856,564	\$ 4,539,860
Investments	85,163,932	-	85,163,932
Accounts receivable - interest	2,904	-	2,904
Due from other funds	3,519,432	-	3,519,432
Total Assets	91,369,564	1,856,564	93,226,128
Liabilities			
Accounts payable	390	-	390
Due to student groups	-	1,856,564	1,856,564
Total Liabilities	390	\$ 1,856,564	1,856,954
Net Assets	\$ 91,369,174		\$ 91,369,174

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Trust Funds
For the Fiscal Year Ended June 30, 2009

	Trust Fund
	<u>Retiree Benefits Fund</u>
ADDITIONS	
Interest	\$ 93,605
Change in fair value of investments	<u>(7,257,371)</u>
Total Additions	<u>(7,163,766)</u>
DEDUCTIONS	
Operating expenditures	<u>701,801</u>
Total Deductions	<u>701,801</u>
Net Decrease	(7,865,567)
Net assets held in trust - July 1, 2008	<u>99,234,741</u>
Net assets held in trust - June 30, 2009	<u><u>\$ 91,369,174</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 fund, 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. 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. The District has no such component units.

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

Accountability:

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Accountability (continued):

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

Scope of Public Service:

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

Financial Presentation:

For financial presentation purposes, the component units' financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the component units' financial activity within the Capital Projects Fund. Certificates of Participation and Bonded Debt issued by the component units will be included in the long-term liabilities on the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

C. Basis of Presentation

Government-wide Financial Statements:

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

Fund Financial Statements:

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

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

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

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

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

Deferred revenue:

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

E. Fund Accounting

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. **Fund Accounting (continued)**

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Special Reserve for Capital Outlay Fund* is used to account for funds set aside for capital outlay projects and financial activity for certificates of participation.

Non-major Governmental Funds:

- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains six non-major special revenue funds:
 1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
 2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
 4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
 5. The *Special Reserve Fund (Other than Capital Outlay)* is used to set aside funds for general operating purposes.
 6. The *Special Reserve Fund (Insurance 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* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:
 1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
 2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.
 4. The *Capital Projects Fund for Blended Component Units* is used to account for the financial activity of the various Community Facilities Districts (CFDs).

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds (continued):

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

Proprietary Funds:

- *Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Internal Service Fund, which is more fully discussed in Note 10.

Fiduciary Funds:

- *Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District. The District also maintains an account to pay for the District's sponsored Internal Revenue Code (IRC) Section 125 cafeteria plan for employee benefits.
- *Trust Funds* are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. The District maintains one other postemployment benefit plan trust fund, the Retiree Benefits Trust Fund.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$50,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

4. Deferred Revenue

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

5. Compensated Absences

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.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

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

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

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

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

I. Revenue Limit/Property Tax

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

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

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds
Cash in county treasury	\$ 75,332,625	\$ 7,381,288	\$ 2,683,296
Cash on hand and in banks	93,044	100,000	1,856,564
Cash with fiscal agent	14,959,126	-	85,163,932
Cash in revolving fund	135,000	-	-
Collections awaiting deposit	404,785	-	-
Total deposits	<u>\$ 90,924,580</u>	<u>\$ 7,481,288</u>	<u>\$ 89,703,792</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

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

General Authorizations

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

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately \$85,548,071 and an amortized book value of \$85,397,209.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is rated from A to AAA by Moody's Investors Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, the District's bank balance of \$2,184,608 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agency.

Concentration of Credit Risk

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:

	General Fund	All Other Non Major Funds	Total Governmental Funds	Proprietary Funds	Fiduciary Funds
Federal Programs	\$ 7,834,778	\$ 102,767	\$ 7,937,545	\$ -	\$ -
State Programs	15,793,796	375,824	16,169,620	-	-
Local Sources	1,982,220	326	1,982,546	5,172	2,904
Total	<u>\$ 25,610,794</u>	<u>\$ 478,917</u>	<u>\$ 26,089,711</u>	<u>\$ 5,172</u>	<u>\$ 2,904</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. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2009 are as follows:

	Due To Other Funds				Total
	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Self Insurance Fund	
General Fund	\$ -	\$ 82	\$ 447,164	\$ 483	\$ 447,729
Special Reserve for Capital Outlay Fund	-	-	1,969,627	-	1,969,627
Self Insurance Fund	688	-	-	-	688
Retiree Benefits Fund	3,519,432	-	-	-	3,519,432
Other Governmental Funds	658,908	-	-	-	658,908
Total	<u>\$ 4,179,028</u>	<u>\$ 82</u>	<u>\$ 2,416,791</u>	<u>\$ 483</u>	<u>\$ 6,596,384</u>

Due from the Adult Education fund to the General fund for indirect costs, P2 and employee benefits	\$ 1,203
Due from the Child Development fund to the General fund for indirect cost, transportation, printing, postage, bank charges, payroll and employee benefits	137,577
Due from the Cafeteria fund to the General Fund for indirect cost, maintenance, supplies and employee benefits	305,273
Due from the Capital Facilities fund to the General fund for printing, postage, maintenance expenditures and employee benefits	3,111
Due from the County School Facilities fund to the Special Reserve fund for Capital Outlay for modernization projects	1,600,384
Due from the Special Reserve for Capital Outlay fund to the General fund for postage and employee benefits	82
Due from the Capital Project-Blended Component Unit fund to the Special Reserve fund for Capital Outlay for CFD expenses	369,243
Due from the Self Insurance fund to the General fund for employee benefits and bank charges	483
Due from the General fund to the Child Development fund for employee benefits	14,420
Due from the General fund to the Capital Facilities fund employee benefits	2,556
Due from the General fund to the Debt Service fund for redevelopment fees	641,932
Due from the General fund to the Self Insurance fund for employee benefits	688
Due from the General fund to Retiree fund for retiree cost	3,519,432
Total	<u>\$6,596,384</u>

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2008-09 fiscal year are as follows:

	Transfers to Other Funds			Total
	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 87,162	\$ 87,162
Special Reserve for Capital Outlay Fund	-	-	30,812,982	30,812,982
Other Governmental Funds	79,499	8,723,678	2,696,501	11,499,678
Total	<u>\$ 79,499</u>	<u>\$ 8,723,678</u>	<u>\$ 33,596,645</u>	<u>\$ 42,399,822</u>

General fund transfer to Deferred Maintenance fund for Yorba Middle School Project	\$ 79,499
County School Facilities fund transfer to Capital Facilities fund for modernization projects	350,861
County School Facilities fund transfer to General fund for modernization projects	87,162
County School Facilities fund transfer to Special Reserve fund for modernization projects	18,365,982
Special Reserve for Capital Outlay fund transfer to County School Facilities fund for modernization projects	8,723,678
Capital Project-Blended Component Unit fund to the County School Facilities fund for modernization projects	2,430
Capital Project-Blended Component Unit fund to the Special Reserve fund for modernization projects	12,447,000
Capital Project-Blended Component Unit fund to the Debt Service fund for Blended Component Units for debt service payments	2,343,210
Total	<u>\$ 42,399,822</u>

NOTE 5 - FUND BALANCES

The following amounts were designated by the Board of Education as of June 30, 2009 as follows:

	General Fund
Economic Uncertainties	\$ 7,018,280
El Rancho	1,692,502
Non-Resident Tuition	56,127
Instructional Materials	834,990
Schoolsite/Department Donations	501,006
Deficit Shift	5,934,330
State Fiscal Stabilization	9,644,077
El Rancho Stabilization	393,757
Medi-Cal Billing Option	216,718
English Language Acquisition	150,777
EIA	1,176,065
QEIA	1,802,097
Total	<u>\$ 29,420,726</u>

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 is shown below:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Land	\$ 19,687,697	\$ -	\$ -	\$ 19,687,697
Site improvements	10,781,200	-	-	10,781,200
Buildings and improvements	74,681,979	25,325,922	-	100,007,901
Furniture and equipment	7,475,984	1,561,924	-	9,037,908
Work in progress	58,724,231	-	3,299,111	55,425,120
Total at historical cost	<u>171,351,091</u>	<u>26,887,846</u>	<u>3,299,111</u>	<u>194,939,826</u>
Less accumulated depreciation:				
Site improvements	8,382,355	462,386	-	8,844,741
Buildings	42,562,137	1,502,562	-	44,064,699
Furniture and equipment	5,254,106	250,227	-	5,504,333
Total accumulated depreciation	<u>56,198,598</u>	<u>2,215,175</u>	<u>-</u>	<u>58,413,773</u>
Governmental activities capital assets, net	<u>\$ 115,152,493</u>	<u>\$ 24,672,671</u>	<u>\$ 3,299,111</u>	<u>\$ 136,526,053</u>

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below.

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Certificates of participation	\$ 50,870,000	\$ -	\$ 370,000	\$ 50,500,000	\$ 505,000
Compensated absences	2,353,418	724,139	-	3,077,557	-
Capital leases	12,663,027	-	862,511	11,800,516	673,868
Special tax revenue bonds	22,375,000	-	1,230,000	21,145,000	1,325,000
Retirement health benefits funding bonds	94,765,000	-	1,000,000	93,765,000	1,100,000
Supplementary retirement plan	10,111,669	179,710	2,057,243	8,234,136	2,058,534
Child development portables	49,448	-	12,362	37,086	12,362
Totals - Governmental Activities	<u>\$ 193,187,562</u>	<u>\$ 903,849</u>	<u>\$ 5,532,116</u>	<u>\$ 188,559,295</u>	<u>\$ 5,674,764</u>

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2009 amounted to \$3,077,557. This amount is included as part of long-term liabilities in the government-wide statements.

B. Certificates of Participation

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-2010	\$ 505,000	\$ 2,299,293	\$ 2,804,293
2010-2011	645,000	2,282,881	2,927,881
2011-2012	795,000	2,260,306	3,055,306
2012-2013	955,000	2,232,481	3,187,481
2013-2014	1,125,000	2,196,669	3,321,669
2014-2019	8,560,000	10,144,693	18,704,693
2019-2024	14,770,000	7,701,402	22,471,402
2024-2029	23,145,000	3,481,038	26,626,038
Total	<u>\$ 50,500,000</u>	<u>\$ 32,598,763</u>	<u>\$ 83,098,763</u>

C. Special Tax Revenue Bonds

1996 Issue

On August 8, 1996, the Orange Unified School District Public Financing Authority issued Series A of the Community Facilities District #89-1 Special Tax Revenue Bonds in the amount of \$4,250,000. The issue consisted of serial bonds with stated interest rates ranging from 4.6% to 5.6% and fully maturing on September 1, 2024. The bonds were issued to fund the construction of District facilities. At June 30, 2009, the principal balance outstanding on the bonds was \$1,860,000.

2000 Issue

On March 22, 2000, the Orange Unified School District Public Financing Authority issued \$13,720,000 of Series A of the Community Facilities Districts #88-1 and #89-2 Bonds. The issue consists of serial bonds with stated interest rates ranging from 4.75% to 5.3% and maturing September 1, 2014. The bonds were issued to fund the construction of District facilities. At June 30, 2009 the principal balance outstanding on the bonds was \$6,845,000.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Special Tax Revenue Bonds (continued)

2006 Issue

On January 6, 2006, the Orange Unified School District Public Financing Authority issued \$6,540,000 of the Community Facilities District No. 2005-1 Bonds. The issue consists of: a) serial bonds with a stated interest rate ranging from 3.8% to 5.2% and maturing on September 1, 2021, b) term bond of \$850,000 with a stated interest rate of 5.25% and maturing on September 1, 2025, and c) term bond of \$4,570,000 with a stated interest rate of 5.375% and maturing on September 1, 2036. At June 30, 2009, the principal balance outstanding on the bonds was \$6,520,000.

2007 Issue

On March 9, 2007, the Orange Unified School District Financing Authority issued \$5,920,000 of the Community Facilities District No. 2005-2 Bonds. The issue consists of a) serial bonds with a state interest rate ranging from 3.8% to 4.625% and maturing on September 1, 2022, b) term bond of \$1,280,000 with a stated interest rate of 4.7% and maturing on September 1, 2028, and c) term bond of \$3,505,000 with a stated interest rate of 5% and maturing on September 1, 2037. At June 30, 2009, the principal balance outstanding on the bonds was \$5,920,000.

The annual requirements to amortize all special tax revenue bonds payable, outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-2010	\$ 1,325,000	\$ 1,051,075	\$ 2,376,075
2010-2011	1,400,000	990,525	2,390,525
2011-2012	1,485,000	933,970	2,418,970
2012-2013	1,570,000	873,245	2,443,245
2013-2014	1,665,000	807,846	2,472,846
2014-2019	2,510,000	3,080,605	5,590,605
2019-2024	1,540,000	2,731,820	4,271,820
2024-2029	2,450,000	2,262,842	4,712,842
2029-2034	3,700,000	1,513,951	5,213,951
2034-2038	3,500,000	420,981	3,920,981
Total	\$ 21,145,000	\$ 14,666,860	\$ 35,811,860

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Child Development Portables

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

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

<u>Fiscal Year</u>	<u>Payment</u>
2009-2010	\$ 12,362
2010-2011	12,362
2011-2012	<u>12,362</u>
Total	<u>\$ 37,086</u>

E. Capital Leases

The District leases school buses, vans, computers and energy retrofit equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2009-2010	\$ 1,242,586
2010-2011	1,257,120
2011-2012	1,097,155
2012-2013	1,011,103
2013-2014	774,445
2014-2019	4,155,562
2019-2024	4,721,935
2024-2029	<u>3,037,747</u>
Total	17,297,652
Less Amount Representing Interest	<u>(5,497,136)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 11,800,516</u>

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Retirement Health Benefits Funding Bonds

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds. The bonds bear interest based on a variable interest rate (initially 3.562%), and mature in May 2043. The bonds were issued by the District to provide funds to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to employment contracts. Proceeds from the bonds were deposited in the District's Retiree Benefits fund, a fiduciary fund of the District. Future principal and interest payments on the retirement health benefits funding bonds are to be made from the District's General fund. The annual requirements to amortize the bonds as of June 30, 2009 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009-2010	\$ 1,100,000	\$ 4,355,812	\$ 5,455,812
2010-2011	1,300,000	4,303,887	5,603,887
2011-2012	1,500,000	4,242,663	5,742,663
2012-2013	1,600,000	4,172,524	5,772,524
2013-2014	1,600,000	4,098,125	5,698,125
2015-2019	9,900,000	19,223,060	29,123,060
2020-2024	12,100,000	16,787,287	28,887,287
2025-2029	14,100,000	13,677,977	27,777,977
2030-2034	17,300,000	10,187,376	27,487,376
2035-2039	20,700,000	5,705,555	26,405,555
2040-2043	12,565,000	1,321,210	13,886,210
Total	<u>\$93,765,000</u>	<u>\$88,075,476</u>	<u>\$ 181,840,476</u>

G. Supplementary Retirement Plan

In June 2009, the District entered into a supplementary retirement plan with Public Agency Retirement Services (PARS) whereby 159 employees of the District elected to take early retirement in exchange for supplementary retirement benefits. Future payments for the PARS supplementary retirement plan are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2009-2010	\$ 2,058,534
2010-2011	2,058,534
2011-2012	2,058,534
2012-2013	<u>2,058,534</u>
Total	<u>\$ 8,234,136</u>

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 8 – JOINT VENTURES

The Orange School District participates in one joint venture under a joint powers agreement (JPA) with the Southern California ReLiEF. The relationship between the Orange School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

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

Condensed audited financial information for the most recently audited fiscal period is as follows:

	Southern California ReLiEF June 30, 2008
Assets	\$ 43,861,260
Liabilities	30,304,168
Net Assets	\$ 13,557,092
Revenues	\$ 26,260,636
Expenses	26,491,432
Change in Net Assets	\$ (230,796)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2009, the District had commitments with respect to unfinished capital projects of approximately \$11,705,933 to be paid.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 2008-09 was 9.428%. 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 5,666,220	100%
2007-08	\$ 5,743,877	100%
2006-07	\$ 3,927,684	100%

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2008-09 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 9,360,513	100%
2007-08	\$ 9,743,426	100%
2006-07	\$ 9,490,895	100%

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

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 \$5,125,023 to STRS (4.517% of salaries subject to STRS in 2008-09).

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Orange Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefits Fund, which is an irrevocable trust. The District implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2006-07.

A. Summary of Significant Accounting Policies

Basis of Accounting: The Retiree Benefits Fund's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. As plan assets are held in an irrevocable trust, investments of plan assets may include investments in equity securities or mutual funds and are not subject to the same limitation on eligible securities that apply to other District funds as per California Government Code Section 16430 and California Education Code Section 41001.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Plan Description and Contribution Information

Membership of the plan consisted of the following at October 1, 2007, the date of the latest actuarial valuation:

	Trust Fund
	<u>Retiree Benefits Fund</u>
Retirees and beneficiaries receiving benefits	917
Active plan members	<u>1,719</u>
Total	<u><u>2,636</u></u>
Number of participating employers	1

Plan Description: The District’s Retiree Benefits Fund is a single-employer defined benefit postemployment healthcare plan that covers eligible retired employees of the District including all departments. The Fund provides health insurance benefits to eligible retirees and their spouses.

C. Plan Description and Contribution Information (continued)

Contributions: Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts annually toward the cost of health insurance premiums. Plan members are required to contribute \$150 annually for Two Party coverage and \$300 for Family coverage, if dependent coverage is elected. The District is required to contribute the balance of the current premium cost.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

D. Funded Status and Funding Progress – OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
10/1/2007	\$ 2,171,175	\$ 167,391,481	\$ 165,220,306	1%

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, presented as required supplementary information following the notes to the financial statements, 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.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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.

ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

E. Funded Status and Funding Progress – OPEB Plans (continued)

Additional information as of the latest actuarial valuation follows:

	Trust Fund
	<u>Retiree Benefits Fund</u>
Valuation Date	10/1/2007
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level-Dollar Basis
Remaining Amortization Period	29 years
Asset Valuation	Market Value Basis
Actuarial Assumptions:	
Discount rate	5.5%
Long-term healthcare cost trend rates:	
HMO	5.5%
PPO	5.5%
Dental & Vision	5.0%

F. Annual OPEB Cost and Net OPEB Asset

The following table shows the elements of the District's annual OPEB cost for the year, the amount actually paid on behalf of the plan, and changes in the District's net OPEB asset to the plan for the year ended June 30, 2009:

	<u>Amount</u>
Annual required contribution (ARC)	\$ 13,531,444
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>13,531,444</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	-
Total contributions made	<u>-</u>
Increase (decrease) in net OPEB asset	(13,531,444)
Net OPEB asset - July 1, 2008	<u>82,108,709</u>
Net OPEB asset - June 30, 2009	<u>\$ 68,577,265</u>

Required Supplementary Information

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ORANGE UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget -
	Original	Final		Pos (Neg)
Revenues				
Revenue Limit Sources	\$ 161,596,005	\$ 159,015,509	\$ 159,015,509	\$ -
Federal	12,943,006	14,844,102	23,627,834	8,783,732
Other State	46,893,759	52,612,599	52,123,704	(488,895)
Other Local	7,847,245	8,557,028	7,546,757	(1,010,271)
Total Revenues	229,280,015	235,029,238	242,313,804	7,284,566
Expenditures				
Certificated Salaries	117,975,618	117,257,126	115,080,188	2,176,938
Classified Salaries	38,197,444	38,776,663	37,217,892	1,558,771
Employee Benefits	39,004,980	48,621,623	46,856,014	1,765,609
Books and Supplies	15,099,583	12,739,661	8,478,248	4,261,413
Services and Other Operating Expenditures	23,402,799	22,729,010	17,451,679	5,277,331
Capital Outlay	100,000	3,938,796	3,646,668	292,128
Direct Support/Indirect Costs	(121,145)	(422,151)	(418,855)	3,296
Other Outgo	7,962,778	8,114,193	5,551,303	2,562,890
Total Expenditures	241,622,057	251,754,921	233,863,137	17,898,376
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(12,342,042)	(16,725,683)	8,450,667	25,182,942
Other Financing Sources and Uses				
Interfund Transfers In	-	87,162	87,163	1
Interfund Transfers Out	-	(79,499)	(79,499)	-
Total Other Financing Sources and Uses	-	7,663	7,664	1
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(12,342,042)	(16,718,020)	8,458,331	25,182,943
Fund Balances, July 1, 2008	29,517,256	29,517,256	29,517,256	-
Fund Balances, June 30, 2009	\$ 17,175,214	\$ 12,799,236	\$ 37,975,587	\$ 25,182,943

ORANGE UNIFIED SCHOOL DISTRICT
Schedules of Funding Progress and Employer Contributions
For the Fiscal Year Ended June 30, 2009

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2006	\$ 13,550,427	\$ 138,309,571	\$ 124,759,144	11%	\$ 36,179,801	345%
10/1/2007	2,171,175	167,391,481	165,220,306	1%	36,388,765	454%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	\$ 9,752,784	100%
2008	13,531,444	100%
2009	13,531,444	0%

Supplementary Information Section

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ORANGE UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2009

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS										
Cash	\$ 62,728	\$ 971,484	\$ 649,346	\$ 3,517,648	\$ 4,304,768	\$ 6,130,860	\$ 8,564,767	\$ -	\$ 9,239,801	\$ 33,441,402
Accounts receivable	10,700	147,469	234,361	46,981	2,939	8,587	326	-	5,980	457,343
Inventories	-	-	145,073	-	-	-	-	-	-	145,073
Due from other funds	-	14,420	-	-	2,556	-	-	-	641,932	658,908
Total Assets	\$ 73,428	\$ 1,133,373	\$ 1,028,780	\$ 3,564,629	\$ 4,310,263	\$ 6,139,447	\$ 8,565,093	\$ -	\$ 9,887,713	\$ 34,702,726
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable and accrued liabilities	\$ 520	\$ 464,297	\$ 464,753	\$ 95,929	\$ 56,439	\$ 287,072	\$ 108,256	\$ -	\$ -	\$ 1,477,266
Due to other funds	1,204	137,578	305,273	-	3,111	1,600,384	369,244	-	-	2,416,794
Total Liabilities	1,724	601,875	770,026	95,929	59,550	1,887,456	477,500	-	-	3,894,060
Fund Balances										
Reserved for:										
Revolving cash	-	-	10,000	-	-	-	-	-	-	10,000
Inventories	-	-	145,074	-	-	-	-	-	-	145,074
Debt service	-	-	-	-	-	-	-	-	9,887,713	9,887,713
Unreserved:										
Special revenue funds	71,704	531,498	103,680	3,468,700	4,250,713	4,251,991	8,087,593	-	-	20,765,879
Total Fund Balances	71,704	531,498	258,754	3,468,700	4,250,713	4,251,991	8,087,593	-	9,887,713	30,808,666
Total Liabilities and Fund Balances	\$ 73,428	\$ 1,133,373	\$ 1,028,780	\$ 3,564,629	\$ 4,310,263	\$ 6,139,447	\$ 8,565,093	\$ -	\$ 9,887,713	\$ 34,702,726

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ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Funds

For the Fiscal Year Ended June 30, 2009

	Adult Education Fund		Child Development Fund		Cafeteria Fund		Deferred Maintenance Fund		Capital Facilities Fund		County School Facilities Fund		Capital Project Fund for Blended Component Units		Debt Service Fund for Blended Component Units		Total Non-Major Governmental Funds	
REVENUES																		
General Revenues:																		
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	-	-	-	-	-	-	56,016	-	128,060	-	-	-	97,346	-	281,422	-
Miscellaneous	-	-	-	-	-	-	-	-	264,014	-	-	-	-	-	5,365,808	-	5,629,822	-
Program Revenues:																		
Charges for services	-	4,147,153	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,921,062
Operating grants and contributions	67,742	1,319,595	-	-	5,681,532	1,006,692	-	-	-	-	-	-	112,572	-	-	-	-	8,188,133
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-	13,099,913	-	-	-	-	-	-	13,099,913
Total Revenues	67,742	5,466,748	8,455,441	1,006,692	320,030	13,227,973	2,708,731	5,463,154	36,716,511									
EXPENDITURES																		
Instructional Services:																		
Instruction	39,245	4,404,651	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,443,896
Supervision of instruction	-	31,315	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,315
Instructional library, media and technology	1,422	5,932	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,354
School site administration	2,450	974,117	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	976,567
Pupil Support Services:																		
Food services	-	-	8,041,979	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,041,979
All other pupil services	611	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	611
General Administration Services:																		
Other general administration	947	118,145	299,763	-	16,384	-	-	-	-	-	-	-	-	-	-	-	-	435,239
Plant services	-	30,600	-	-	1,856,595	-	-	-	-	-	-	-	-	-	-	-	-	1,887,195
Facility acquisition and construction	-	-	-	-	4,969	-	-	-	803,877	-	3,493,770	-	4,172,934	-	-	-	-	8,475,550
Other outgo:																		
Transfers between agencies	-	-	-	-	-	-	-	-	-	-	-	-	554,530	-	-	-	-	-
Debt service - principal	-	23,403	12,326	-	159,444	-	-	-	-	-	-	-	-	1,230,000	-	-	-	1,795,173
Debt service - interest	-	4,207	2,216	-	-	-	-	-	-	-	-	-	-	1,113,210	-	-	-	3,428,073
Total Expenditures	44,675	5,592,370	8,356,284	1,861,564	979,705	3,493,770	4,737,464	2,678,440	30,077,482									
Excess (Deficiency) of Revenues Over (Under) Expenditures	23,067	(125,622)	99,157	(854,872)	(659,675)	9,734,203	(2,018,733)	2,784,714	6,639,029									
OTHER FINANCING SOURCES (USES)																		
Interfund transfers in	-	13,500	-	79,499	350,861	-	-	-	-	-	9,138,029	-	-	2,343,210	-	-	-	11,925,099
Interfund transfers out	-	(13,500)	-	-	-	(19,215,925)	(14,792,641)	-	-	-	-	-	-	-	-	-	-	(34,022,066)
Total Other Financing Sources and Uses	-	-	-	79,499	350,861	(10,077,896)	(14,792,641)	2,343,210	(22,096,967)									
Net Change in Fund Balances	23,067	(125,622)	99,157	(775,373)	(308,814)	(43,693)	(16,811,374)	2,784,714	6,639,029									
Fund Balances, July 1, 2008	48,637	657,123	159,596	4,244,072	4,559,527	4,595,684	24,898,967	7,102,998	46,266,604									
Fund Balances, June 30, 2009	\$ 71,704	\$ 531,501	\$ 258,753	\$ 3,468,699	\$ 4,250,713	\$ 4,251,991	\$ 8,087,593	\$ 9,887,712	\$ 30,808,666									

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ORANGE UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Blended Component Units
June 30, 2009

	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Del Rio CFD #2007-1	Orange Schools Financing Authority	Total Blended Component Units
ASSETS						
Cash	\$ 974,993	\$ 3,103,016	\$ 1,532,672	\$ 2,954,086	\$ 3,193,738	\$ 11,758,505
Accounts receivable	-	-	-	326	-	326
Total Assets	\$ 974,993	\$ 3,103,016	\$ 1,532,672	\$ 2,954,412	\$ 3,193,738	\$ 11,758,831
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 105,660	\$ 2,596	\$ -	\$ 108,256
Due to other funds	-	-	-	369,244	-	369,244
Total Liabilities	-	-	105,660	371,840	-	477,500
FUND BALANCES						
Unreserved:						
Capital projects funds	974,993	3,103,016	1,427,012	2,582,572	3,193,738	11,281,331
Total Liabilities and Fund Balances	\$ 974,993	\$ 3,103,016	\$ 1,532,672	\$ 2,954,412	\$ 3,193,738	\$ 11,758,831

ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Blended
Component Units
For the Fiscal Year Ended June 30, 2009

REVENUES	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Del Rio CFD #2007-1	Orange Schools Financing Authority	Total Blended Component Units
General Revenues:						
Taxes levied for other specific purposes	\$ 383,889	\$ 1,414,044	\$ 478,670	\$ 319,556	\$ -	\$ 2,596,159
Earnings on investments	4,597	60,442	15,993	26,199	57,788	165,019
Total revenues	<u>388,486</u>	<u>1,474,486</u>	<u>494,663</u>	<u>345,755</u>	<u>57,788</u>	<u>2,761,178</u>
EXPENDITURES						
Principal	255,000	960,000	15,000	-	370,000	1,600,000
Interest	109,980	372,801	344,723	285,706	2,309,469	3,422,679
General Administration Services:						
Other general administration	14,632	19,586	32,571	17,231		84,020
Facility acquisition and construction	1,499	931	1,294,693	2,934,288	9,164,614	13,396,025
Total expenditures	<u>381,111</u>	<u>1,353,318</u>	<u>1,686,987</u>	<u>3,237,225</u>	<u>11,844,083</u>	<u>18,502,724</u>
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	-	-	-	-	2,678,440	2,678,440
Interfund transfers out	-	-	(554,530)	-	-	(554,530)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(554,530)</u>	<u>-</u>	<u>2,678,440</u>	<u>2,123,910</u>
Net Change in Fund Balances	7,375	121,168	(1,746,854)	(2,891,470)	(9,107,855)	(13,617,636)
Fund Balances, July 1, 2008	<u>967,618</u>	<u>2,981,848</u>	<u>3,173,866</u>	<u>5,474,042</u>	<u>12,301,593</u>	<u>24,898,967</u>
Fund Balances, June 30, 2009	<u>\$ 974,993</u>	<u>\$ 3,103,016</u>	<u>\$ 1,427,012</u>	<u>\$ 2,582,572</u>	<u>\$ 3,193,738</u>	<u>\$ 11,281,331</u>

ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – Student Body Funds – Summary
June 30, 2009

	<u>High Schools</u>	<u>Middle Schools</u>	<u>Elementary Schools</u>	<u>Totals</u>
ASSETS				
Cash on hand and in banks	<u>\$ 1,393,471</u>	<u>\$ 244,176</u>	<u>\$ 218,917</u>	<u>\$ 1,856,564</u>
Total Assets	<u>\$ 1,393,471</u>	<u>\$ 244,176</u>	<u>\$ 218,917</u>	<u>\$ 1,856,564</u>
LIABILITIES				
Due to student groups	<u>\$ 1,393,471</u>	<u>\$ 244,176</u>	<u>\$ 218,917</u>	<u>\$ 1,856,564</u>
Total Liabilities	<u>\$ 1,393,471</u>	<u>\$ 244,176</u>	<u>\$ 218,917</u>	<u>\$ 1,856,564</u>

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ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – Student Body Funds – High Schools
June 30, 2009

	Canyon High School	El Modena High School	Orange High School	Richland High School	Villa Park High School	Career Education Center ROP	Totals
ASSETS							
Cash on hand and in banks	\$ 501,216	\$ 229,005	\$ 224,822	\$ 4,241	\$ 428,357	\$ 5,830	\$ 1,393,471
Total Assets	\$ 501,216	\$ 229,005	\$ 224,822	\$ 4,241	\$ 428,357	\$ 5,830	\$ 1,393,471
LIABILITIES							
Due to student groups	\$ 501,216	\$ 229,005	\$ 224,822	\$ 4,241	\$ 428,357	\$ 5,830	\$ 1,393,471
Total Liabilities	\$ 501,216	\$ 229,005	\$ 224,822	\$ 4,241	\$ 428,357	\$ 5,830	\$ 1,393,471

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ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – Student Body Funds – Middle Schools
June 30, 2009

	Cerro Villa Middle School	El Rancho Middle School	Portola Middle School	Yorba Middle School	Totals
ASSETS					
Cash on hand and in banks	<u>\$ 115,242</u>	<u>\$ 97,598</u>	<u>\$ 20,353</u>	<u>\$ 10,983</u>	<u>\$ 244,176</u>
Total Assets	<u><u>\$ 115,242</u></u>	<u><u>\$ 97,598</u></u>	<u><u>\$ 20,353</u></u>	<u><u>\$ 10,983</u></u>	<u><u>\$ 244,176</u></u>
LIABILITIES					
Due to student groups	<u>\$ 115,242</u>	<u>\$ 97,598</u>	<u>\$ 20,353</u>	<u>\$ 10,983</u>	<u>\$ 244,176</u>
Total Liabilities	<u><u>\$ 115,242</u></u>	<u><u>\$ 97,598</u></u>	<u><u>\$ 20,353</u></u>	<u><u>\$ 10,983</u></u>	<u><u>\$ 244,176</u></u>

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ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – Student Body Funds – Elementary Schools
June 30, 2009

	Anaheim Hills	Cambridge	Canyon Rim	Chapman Hills	Crescent	Fletcher	La Veta	Imperial	Eplanade	Lampson	Linda Vista	McPherson
ASSETS												
Cash on hand and in banks	\$ 9,579	\$ 2,921	\$ 16,471	\$ 6,557	\$ 1,414	\$ 2,693	\$ 31,927	\$ 3,248	\$ 1,855	\$ 22,250	\$ 20,225	\$ 87
Total Assets	\$ 9,579	\$ 2,921	\$ 16,471	\$ 6,557	\$ 1,414	\$ 2,693	\$ 31,927	\$ 3,248	\$ 1,855	\$ 22,250	\$ 20,225	\$ 87
LIABILITIES												
Due to student groups	\$ 9,579	\$ 2,921	\$ 16,471	\$ 6,557	\$ 1,414	\$ 2,693	\$ 31,927	\$ 3,248	\$ 1,855	\$ 22,250	\$ 20,225	\$ 87
Total Liabilities	\$ 9,579	\$ 2,921	\$ 16,471	\$ 6,557	\$ 1,414	\$ 2,693	\$ 31,927	\$ 3,248	\$ 1,855	\$ 22,250	\$ 20,225	\$ 87
ASSETS												
Cash on hand and in banks	\$ 817	\$ 21,329	\$ 15,873	\$ 13,117	\$ 34,035	\$ 5,698	\$ 262	\$ 23	\$ 6,640	\$ 791	\$ 1,105	\$ 218,917
Total Assets	\$ 817	\$ 21,329	\$ 15,873	\$ 13,117	\$ 34,035	\$ 5,698	\$ 262	\$ 23	\$ 6,640	\$ 791	\$ 1,105	\$ 218,917
LIABILITIES												
Due to student groups	\$ 817	\$ 21,329	\$ 15,873	\$ 13,117	\$ 34,035	\$ 5,698	\$ 262	\$ 23	\$ 6,640	\$ 791	\$ 1,105	\$ 218,917
Total Liabilities	\$ 817	\$ 21,329	\$ 15,873	\$ 13,117	\$ 34,035	\$ 5,698	\$ 262	\$ 23	\$ 6,640	\$ 791	\$ 1,105	\$ 218,917

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ORANGE UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2009

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

GOVERNING BOARD		
Member	Office	Term Expires
Rick Ledesma	President	2010
John H. Ortega	Vice President	2012
Mark D. Wayland	Clerk	2012
Alexia L. Deligianni, Ed. D.	Member	2012
Kathryn A. Moffat	Member	2010
Kimberlee Nichols	Member	2010
Melissa J. Smith	Member	2010

DISTRICT ADMINISTRATORS

Renaë Dreier, Ed.D.,
Superintendent

Michael L. Christensen, MBA
Assistant Superintendent, Administrative Services

Ed Kisseë,
Assistant Superintendent, Human Resources

Marsha Brown, Ed.D.,
Assistant Superintendent, Educational Services

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	1,930	1,935
Grades 1 through 6, regular classes	12,422	12,413
Grades 7 and 8, regular classes	2,383	2,376
Home and hospital	17	20
Community day school	5	8
Special education	618	624
Total Elementary	<u>17,375</u>	<u>17,376</u>
Secondary:		
Grades 9 through 12, regular classes	8,799	8,742
Continuation education	315	311
Home and hospital	38	41
Community day school	21	29
Special education	418	418
Total Secondary	<u>9,591</u>	<u>9,541</u>
Classes for Adults:		
Not concurrently enrolled	24	20
Total Adult Classes	<u>24</u>	<u>20</u>
Charter Schools:		
Classroom based	1,084	1,084
Non-classroom based	10	10
Total Charter Schools	<u>1,094</u>	<u>1,094</u>
Total Average Daily Attendance	<u>28,084</u>	<u>28,031</u>
	<u>Second Period</u>	<u>Annual</u>
<u>Supplemental Instruction Hours</u>	<u>Hours of</u>	<u>Hours of</u>
	<u>Attendance</u>	<u>Attendance</u>
Elementary	142,298	145,069
High School	254,588	263,538
Charter Schools	9,573	17,635

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

Grade Level	1982-83	1986-87	2008-09	Number of Days	Number of Days	Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	Multi-track Year Round	
Kindergarten	31,680	36,000	36,000	180	175	Complied
Grade 1	43,324	50,400	50,650	180	175	Complied
Grade 2	43,324	50,400	50,650	180	175	Complied
Grade 3	43,324	50,400	50,650	180	175	Complied
Grade 4	49,774	54,000	54,025	180	175	Complied
Grade 5	49,774	54,000	54,025	180	175	Complied
Grade 6	49,774	54,000	54,025	180	175	Complied
Grade 7	62,589	54,000	62,706	180	175	Complied
Grade 8	62,589	54,000	62,706	180	175	Complied
Grade 9	62,300	64,800	64,826	180	175	Complied
Grade 10	62,300	64,800	64,826	180	175	Complied
Grade 11	62,300	64,800	64,826	180	175	Complied
Grade 12	62,300	64,800	64,826	180	175	Complied

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010***	2009	2008	2007
Revenues and other financing sources	\$ 216,266,723	\$ 242,313,804	\$ 340,942,277	\$ 251,299,408
Expenditures	247,382,936	233,863,137	240,835,220	247,181,096
Other uses and transfers out	1,161,656	(7,664)	95,130,787	1,284,955
Total outgo	248,544,592	233,855,473	335,966,007	248,466,051
Change in fund balance (deficit)	(32,277,869)	8,458,331	4,976,270	2,833,357
Ending fund balance	\$ 5,697,718	\$ 37,975,587	\$ 29,517,256	\$ 24,540,986
Available reserves*	\$ 4,641,590	\$ 15,381,939	\$ 18,174,151	\$ 16,503,299
Available reserves as a percentage of total outgo	1.9%	6.6%	5.4%	6.6%
Total long-term debt	\$ 182,884,531	\$ 188,559,295	\$ 193,187,562	\$ 83,611,896
Average daily attendance at P-2**	28,073	28,084	26,630	26,796

The General Fund balance has increased by \$13,434,601 over the past two years. The fiscal year 2009-10 adopted budget projects a decrease of \$32,277,869. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has increased \$104,947,399 over the past two years.

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

** Excludes Adult Education and Charter School ADA.

*** Revised Final Budget September 2009.

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	\$ 3,770,512
National School Breakfast	10.553	13390	19,400
Especially Needy Breakfast	10.553	13526	1,024,896
Meal Supplements	10.556	13392	73,398
School Breakfast Startup	10.553	23668	35,706
USDA Commodities (non-cash assistance)	10.565	13389	297,565
Total U.S. Department of Agriculture			<u>5,221,855</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	14329	3,809,192
Title I - Part B, Reading First	84.357	14328	804,392
Title II - Part D Enhancing Education Through Technology (EETT)	84.318	14334	11,154
Title II - Part D EETT Competitive Grants	84.318	14368	634,095
Title II - Part A Improving Teacher Quality	84.367	14341	1,074,395
Title III - Limited English Proficiency	84.365	10084	605,466
Title IV - Safe and Drug Free Schools	84.186	14347	103,750
Title V - Innovative Education	84.298A	14354	10,821
Indian Education	84.060	10011	63,475
Vocational Programs	84.048	13924	210,636
Teaching American History	84.215X	N/A	236,825
Individuals with Disabilities Education Act (IDEA):			
ARRA-IDEA Part B, Private School ISPs	84.391	10123	26,046
IDEA Part B, Private School ISPs	84.027	10115	31,483
Preschool Grants	84.173	13430	140,137
Preschool Staff Development	84.173A	13431	2,385
Early Intervention Grants	84.181	23761	86,305
Preschool Local Entitlements, Part B	84.027A	13682	249,968
Basic Local Assistance Entitlement, Part B	84.027	13379	5,853,649
Total U.S. Department of Education			<u>13,954,174</u>
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education:			
Child Development: Quality Improvement	93.575	13979	3,506
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	220,870
Total U.S. Department of Health & Human Services			<u>224,376</u>
Total Expenditures of Federal Awards			<u>\$ 19,400,405</u>

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2009

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

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

There were no audit adjustments required to reconcile the Annual Financial and Budget Report with the Audited Financial Statements in fiscal year 2008-09.

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2009

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the school district and displays information for each charter school on whether or not the charter school is included in the school district audit.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Other Independent Auditors' Reports

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Orange Unified School District
Orange, California

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

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- Community Associations Institute
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We have audited the financial statements of Orange Unified School District as of and for the year ended June 30, 2009, and have issued our report thereon dated October 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the District's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as item #2009-1.

Orange Unified School District's response to the findings identified in our audit are 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.



San Diego, California

October 16, 2009



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Orange Unified School District
Orange, California

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

Compliance

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Elizabeth Nigro, CPA
Christy White, CPA

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We have audited the compliance of Orange Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Orange Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified School District's compliance based on our audit.

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

In our opinion, Orange Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Orange Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Orange Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Rigoberto R. White, PC

San Diego, California

October 16, 2009



A Professional
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Board of Trustees
Orange Unified School District
Orange, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Orange Unified School District, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 16, 2009. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2008-2009*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	No (see below)
Continuation Education	10	Yes
Adult Education	9	Not applicable ¹
Regional Occupational Centers and Programs	6	Not applicable ¹
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Not applicable ¹

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Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 ²
K-8 only	1	Not applicable ¹
Grades 9-12 only	1	Not applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable ¹
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Yes

¹ This program is not required to be audited per flexibility provisions in SBx3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

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

Based on our audit, we found that, for the items tested, the Orange Unified School District complied with the state laws and regulations referred to above, except as described in finding #2009-1 in the schedule of findings and questions costs. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Orange Unified School District had not complied with the state laws and regulations, except as described in finding #2009-1 of the Schedule of findings and questioned costs.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the California Department of Finance, 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.

Miguel Nigro & White, PC

San Diego, California
October 16, 2009

Findings and Questioned Costs Section

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ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) 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>	
84.027, 84.173, 84.391 Special Education Cluster (IDEA)	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 582,012</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(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Qualified</u>

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings

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

There were no audit findings related to the financial statements in 2008-09.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

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

There were no audit findings and questioned costs related to Federal awards during 2008-09.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs

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

Finding #2009-1: After School Education and Safety Program Attendance Reporting (40000)

Criteria: The District must record and semi-annually report the actual pupil attendance for the After School Education and Safety (ASES) program as defined in Education Code Sections 8482.3-8484. Education Code Section 8484(a)(1)(B) requires the semi-annual attendance reports to reconcile to the underlying records of attendance.

Condition: We found that the attendance report for Portola Middle and Jordan Elementary the underlying attendance records did not agree without exception to the semi-annual attendance reported to CDE. Jordan Elementary students served was overstated on 1st half 2008-09 by 29 student days, and Portola Middle was overstated on 1st half 2008-09 by 4 student days.

Questioned Costs: There is no potential ASES program funding loss for Portola Middle or Jordan Elementary because the District's ASES program attendance was greater than 85% of the ASES program's estimated students served.

Context: The attendance discrepancy described herein appeared isolated to the reported attendance for the ASES program to the Portola Middle and Jordan Elementary school sites.

Cause: The YMCA and Campfire (program administrators) summary reports did not reconcile to the underlying attendance numbers.

Recommendation: In order to augment compliance efforts we recommend that a semi-annual reconciliation be performed to ensure the records maintained by the YMCA (Jordan Elementary program administrator) and Campfire (Portola Middle program administrator) ASES program administrators agree without exception to the data submitted to CDE.

District Response: The District will work with the YMCA and Campfire administrators to utilize attendance software to reconcile attendance numbers.

ORANGE UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-1 Associated Student Body Funds</i>	<p>Our audit of the El Modena High School ASB account noted the following internal control deficiencies:</p> <ul style="list-style-type: none"> Deposits of cash collected for ASB activities were not made timely in 2007-08. In September 2008, \$106,278 in cash and checks were deposited by District personnel. The September 2008 deposit included ASB collections dating back to December 2007. Of the total June 2008 deposits amounting to \$94,882, only \$61,701 was recorded in the ASB's general ledger. Bank accounts were not reconciled timely following the end of each month in 2007-08. For example, the February 2008 bank reconciliation was not prepared until July 2008. Cash receipts were missing supporting documentation such as deposit worksheets or sales logs. Four of six vendor payments tested in 2007-08 were missing approval signatures from all three required approvers (ASB officer, administrator, and faculty sponsor). A \$9,950 vendor payment to Yearbook West on May 23, 2008 for yearbook camp fees was missing an invoice on file to support vendor name and invoice date. 	30000	<p>We recommend that:</p> <ul style="list-style-type: none"> Cash deposits are made timely, generally within one week of collection. All ASB financial transactions are timely recorded in the general ledger. Bank reconciliations are performed immediately upon receipt of the monthly bank statement. Completed bank reconciliations are sent timely to the District office for review. Sales logs or other detailed evidence of cash receipts are kept on file to support all ASB collection types, particularly for significant activities such as sporting events, dances, and track sales. Expenditures are properly authorized and supported by documentation such as the original vendor's invoice or receipt. 	<p>Implemented</p> <p>No discrepancies were noted in audit testing following the replacement of the former El Modena High School ASB bookkeeper in October 2008. The internal control deficiencies noted appeared to be attributable to the prior ASB bookkeeper.</p>

