



**ORANGE UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

ORANGE UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Orange Unified School District
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13 and budgetary comparison information on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange Unified School District's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of the Orange Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange Unified School District's internal control over financial reporting and compliance.

VADZINSKY TRINE, Day + Co. CP

Rancho Cucamonga, California
November 6, 2013



ORANGE UNIFIED SCHOOL DISTRICT

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This section of Orange Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

Mission Statement: Orange Unified School District, being committed to planning for continual improvement, will provide a curriculum and learning environment of excellence and high expectations to provide each student with the opportunity and preparation to compete in the global economy.

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2013

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* 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 position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2013

FINANCIAL HIGHLIGHTS

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$244.4 million for the fiscal year ended June 30, 2013. Of this amount, \$83.0 million was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 240,989,807	\$ 236,864,712
Capital assets	166,833,402	159,914,832
Total Assets	407,823,209	396,779,544
Liabilities		
Current liabilities	22,932,791	14,895,560
Long-term obligations	140,480,886	156,973,734
Total Liabilities	163,413,677	171,869,294
Net Position		
Net investment in capital assets	138,577,146	122,783,592
Restricted	22,835,472	32,578,233
Unrestricted	82,996,914	69,548,425
Total Net Assets	\$ 244,409,532	\$ 224,910,250

The \$83.0 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 19.3 percent (\$83.0 million compared to \$69.5 million).

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2013

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 6,691,656	\$ 5,039,273
Operating grants and contributions	58,406,782	62,360,373
General revenues:		
Federal and State aid not restricted	28,554,120	63,214,205
Property taxes	143,488,819	114,475,769
Other general revenues	12,895,539	8,699,175
Total Revenues	250,036,916	253,788,795
Expenses		
Instruction-related	171,068,267	163,862,537
Student support services	23,563,319	22,915,601
Administration	7,690,971	7,117,675
Maintenance and operations	21,474,948	18,540,237
Other	6,740,129	9,534,558
Total Expenses	230,537,634	221,970,608
Change in Net Position	\$ 19,499,282	\$ 31,818,187

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$230.5 million. The amount that our local taxpayers ultimately financed for these activities through local property taxes was \$143.5 million. The District also collected \$6.7 million in charges for services from those that benefited from the programs. Other government agencies and organizations subsidized certain programs with grants and contributions (\$58.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$41.4 million in unrestricted State and Federal funds, and with other revenues, such as gifts, interest and general entitlements.

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2013

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction-related	\$ 171,068,267	\$ 163,862,537	\$ 127,923,766	\$ 115,407,830
Student support services	23,563,319	22,915,601	9,849,358	8,558,567
Administration	7,690,971	7,117,675	6,547,678	6,089,221
Maintenance and operations	21,474,948	18,540,237	21,449,235	18,224,207
Other	6,740,129	9,534,558	(330,841)	6,291,137
Total	\$ 230,537,634	\$ 221,970,608	\$ 165,439,196	\$ 154,570,962

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$109.7 million, which is a decrease of \$15.3 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 75,772,202	\$ 219,433,323	\$ 219,799,388	\$ 75,406,137
Special Reserve Fund for Capital				
Outlay Projects	16,353,257	4,371,021	8,057,097	12,667,181
Charter School Fund	3,120,601	7,155,491	6,966,417	3,309,675
Child Development Fund	820,604	5,131,838	5,383,480	568,962
Cafeteria Fund	2,434,099	8,174,032	7,514,037	3,094,094
Deferred Maintenance Fund	5,166,178	1,970,186	580,174	6,556,190
Capital Facilities Fund	3,374,172	358,215	685,939	3,046,448
County School Facilities Fund	1,449,992	8,231,705	9,204,009	477,688
Capital Project Fund for Blended				
Component Units	4,793,216	10,686	1,007,772	3,796,130
Debt Service Fund	11,702,486	41,960,678	52,894,142	769,022
Total	\$ 124,986,807	\$ 296,797,175	\$ 312,092,455	\$ 109,691,527

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2013

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the 2012-2013 budget was adopted in September 2013. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 61).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$166.8 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$6.9 million, or 4.3 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2013	2012
Land and construction in progress	\$ 52,446,312	\$ 71,566,421
Buildings and improvements	111,252,519	85,020,283
Furniture and equipment	3,134,571	3,328,128
Total	\$ 166,833,402	\$ 159,914,832

As of June 30, 2013, the District had invested \$166.8 million, net of depreciation, in broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the 2012-2013 fiscal year, the District continued the modernization of seven schools namely: Fletcher Elementary School, Lampson Elementary School, Anaheim Hills Elementary School, Yorba Middle School, El Modena High School, Orange High School, and Villa Park High School.

A limited number of capital projects are planned for the 2013-2014 year. Planning for future potential capital initiatives is ongoing. The District plans to acquire a modest amount of additional capitalized supplies, equipment, and furnishings during the 2013-2014 year.

ORANGE UNIFIED SCHOOL DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Long-Term Obligations

At the end of this year, the District had \$140.5 million in long-term obligations versus \$157.0 million last year, a decrease of 10.5 percent. Those obligations consisted of:

Table 6

	Governmental Activities	
	2013	2012
Certificates of participation	\$ 35,573,644	\$ 48,555,000
Compensated absences (vacations)	3,766,319	3,768,487
Capital leases	9,145,923	9,722,713
Retirement health benefits funding bonds	88,265,000	89,865,000
Supplemental Early Retirement Plan (SERP)	-	2,058,534
Claims liability	3,730,000	3,004,000
Total	\$ 140,480,886	\$ 156,973,734

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total budgeted attendance of 26,507 (not including District charter schools, county special education and county community day schools) reflects an anticipated loss of 377 ADA. The District charter schools' ADA of 2,107.47 reflects no change as compared to the prior year.

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

	<u>Staffing Ratio</u>
Grades K through two	30:1
Grades three through six	33:1
Grades seven through twelve	33:1

The new items specifically addressed in the budget are:

	<u>% Change</u>
Federal sequestration adjustment	(8.2)%
State and Federal cost of living adjustment	0.00%
Health and welfare increase	0.00%

ORANGE UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2013-2014 State budget is balanced and has the first real reserve in years. The changes made in school finance beginning with 2013-2014 are the most dramatic since Senate Bill (SB) 90 (Chapter 1406/1972) created revenue limits and categorical programs. As with any major change, the new rules are hard to understand and incomplete, requiring continued evolution. The implementation of Common Core State Standards will change educational delivery as much as the Local Control Funding Formula will change school finance.

Compared to prior years, the proposed 2013-2014 State budget faces considerably less risk. It is not dependent upon voter approval of a major tax initiative. Proposition 30 provides both sales tax and income tax revenues. The plan does not rely on an infusion of Federal funds to maintain programs.

Other Factors

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

ORANGE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 122,957,800
Receivables	18,415,780
Prepaid expenses	1,207,192
Deferred cost on issuance	853,547
Stores inventories	304,021
Deferred charges on refunding	698,650
Net OPEB assets	96,552,817
Capital assets	
Land and construction in process	52,446,312
Other capital assets	183,291,812
Less: Accumulated depreciation	<u>(68,904,722)</u>
Total Capital Assets	<u>166,833,402</u>
Total Assets	<u>407,823,209</u>
LIABILITIES	
Accounts payable	22,452,246
Interest payable	151,095
Deferred revenue	329,450
Current portion of long-term obligations	5,327,267
Noncurrent portion of long-term obligations	<u>135,153,619</u>
Total Long-Term Obligations	<u>140,480,886</u>
Total Liabilities	<u>163,413,677</u>
NET POSITION	
Net investment in capital assets	138,577,146
Restricted for:	
Debt service	617,927
Capital projects	3,524,136
Educational programs	5,200,389
Other activities	13,493,020
Unrestricted	<u>82,996,914</u>
Total Net Position	<u>\$ 244,409,532</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 141,081,876	\$ 648,302	\$ 36,040,003	\$ (104,393,571)
Instruction-related activities:				
Supervision of instruction	8,897,096	70,092	5,485,089	(3,341,915)
Instructional library, media, and technology	4,073,611	1,592	207,119	(3,864,900)
School site administration	17,015,684	157,390	534,914	(16,323,380)
Pupil services:				
Home-to-school transportation	6,723,096	422,587	2,092,940	(4,207,569)
Food services	7,285,237	1,674,223	6,307,220	696,206
All other pupil services	9,554,986	21,651	3,195,340	(6,337,995)
Administration:				
Data processing	1,237,376	-	1,442	(1,235,934)
All other administration	6,453,595	71,436	1,070,415	(5,311,744)
Plant services	21,474,948	7,003	18,710	(21,449,235)
Ancillary services	1,506,519	-	76,020	(1,430,499)
Community services	247,491	-	152,869	(94,622)
Interest on long-term obligations	1,993,367	-	-	(1,993,367)
Other outgo	2,992,752	3,617,380	3,224,701	3,849,329
Total Governmental Activities	\$ 230,537,634	\$ 6,691,656	\$ 58,406,782	(165,439,196)
General revenues and subventions:				
				142,556,256
Property taxes, levied for general purposes				932,563
Taxes levied for other specific purposes				28,554,120
Federal and State aid not restricted to specific purposes				310,916
Interest and investment earnings				3,463,103
Transfers between agencies				9,121,520
Miscellaneous				
				184,938,478
				19,499,282
Change in Net Position				224,910,250
Net Position - Beginning				\$ 244,409,532
Net Position - Ending				

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

ORANGE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 79,098,372	\$ 14,125,012	\$ 20,970,698	\$ 114,194,082
Receivables	17,066,924	3,754	1,342,941	18,413,619
Due from other funds	411,879	338,352	2,153,802	2,904,033
Prepaid expenditures	1,207,192	-	-	1,207,192
Stores inventories	177,740	-	126,281	304,021
Total Assets	\$ 97,962,107	\$ 14,467,118	\$ 24,593,722	\$ 137,022,947
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 18,171,550	\$ 1,799,821	\$ 2,372,672	\$ 22,344,043
Due to other funds	4,237,636	116	420,175	4,657,927
Deferred revenue	146,784	-	182,666	329,450
Total Liabilities	22,555,970	1,799,937	2,975,513	27,331,420
Fund Balances:				
Nonspendable	1,484,932	-	161,281	1,646,213
Restricted	5,200,389	12,667,181	14,900,738	32,768,308
Committed	-	-	6,556,190	6,556,190
Assigned	1,871,744	-	-	1,871,744
Unassigned	66,849,072	-	-	66,849,072
Total Fund Balances	75,406,137	12,667,181	21,618,209	109,691,527
Total Liabilities and Fund Balances	\$ 97,962,107	\$ 14,467,118	\$ 24,593,722	\$ 137,022,947

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

ORANGE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds	\$ 109,691,527
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 235,738,124
Accumulated depreciation is:	<u>(68,904,722)</u>
Net Capital Assets	166,833,402
In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements postemployment benefits costs are recognized in the period that they are incurred. The other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.	96,552,817
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis as deferred costs on issuance.	853,547
The District has refunded its certificates of participation. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents unamortized deferred charges on refunding remaining as of June 30, 2013.	698,650
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(151,095)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	6,681,570
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
Certificates of participation	35,573,644
Compensated absences (vacations)	3,766,319
Capital leases	9,145,923
Retirement health benefits funding bonds	<u>88,265,000</u>
Total Long-Term Obligations	(136,750,886)
Total Net Position - Governmental Activities	<u><u>\$ 244,409,532</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 142,164,638	\$ -	\$ 6,194,997	\$ 148,359,635
Federal sources	14,889,381	-	6,067,039	20,956,420
Other State sources	53,919,570	-	7,732,709	61,652,279
Other local sources	8,459,734	56,265	10,679,772	19,195,771
Total Revenues	<u>219,433,323</u>	<u>56,265</u>	<u>30,674,517</u>	<u>250,164,105</u>
EXPENDITURES				
Current				
Instruction	139,567,974	-	8,132,934	147,700,908
Instruction-related activities:				
Supervision of instruction	9,097,765	-	4,871	9,102,636
Instructional library, media and technology	4,114,430	-	129,426	4,243,856
School site administration	15,684,875	-	1,910,958	17,595,833
Pupil services:				
Home-to-school transportation	6,781,381	-	124,708	6,906,089
Food services	-	-	7,340,314	7,340,314
All other pupil services	9,685,146	-	169,054	9,854,200
Administration:				
Data processing	1,248,366	-	-	1,248,366
All other administration	6,258,210	-	308,588	6,566,798
Plant services	19,685,084	-	1,130,870	20,815,954
Facility acquisition and construction	-	4,767,376	6,579,578	11,346,954
Ancillary services	1,529,427	-	24,124	1,553,551
Community services	253,258	-	-	253,258
Other outgo	1,351,104	-	2,385,808	3,736,912
Debt service				
Principal	2,176,790	-	2,495,517	4,672,307
Interest and other	1,406,146	-	629,464	2,035,610
Total Expenditures	<u>218,839,956</u>	<u>4,767,376</u>	<u>31,366,214</u>	<u>254,973,546</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>593,367</u>	<u>(4,711,111)</u>	<u>(691,697)</u>	<u>(4,809,441)</u>
Other Financing Sources (Uses)				
Transfers in	-	4,314,756	4,249,153	8,563,909
Other sources - proceeds from issuance of certificates of participation	-	-	38,069,161	38,069,161
Transfers out	(959,432)	(3,289,721)	(4,314,756)	(8,563,909)
Other uses - payments to refunded certificates of participation escrow agent	-	-	(48,555,000)	(48,555,000)
Net Financing Sources (Uses)	<u>(959,432)</u>	<u>1,025,035</u>	<u>(10,551,442)</u>	<u>(10,485,839)</u>
NET CHANGE IN FUND BALANCES	<u>(366,065)</u>	<u>(3,686,076)</u>	<u>(11,243,139)</u>	<u>(15,295,280)</u>
Fund Balances - Beginning	<u>75,772,202</u>	<u>16,353,257</u>	<u>32,861,348</u>	<u>124,986,807</u>
Fund Balances - Ending	<u>\$ 75,406,137</u>	<u>\$ 12,667,181</u>	<u>\$ 21,618,209</u>	<u>\$ 109,691,527</u>

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

ORANGE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ (15,295,280)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 10,357,067	
Depreciation expense	<u>(3,438,497)</u>	
Net Expense Adjustment		6,918,570

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were special termination benefits paid in the amount of \$2,058,534. Vacation paid was more than the amounts earned by \$2,168. 2,060,702

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide statements as an expense. The actual amount of the contribution was more than the other postemployment benefit cost. 8,820,113

Proceeds received from Certificates of Participation or Sale of Bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities. The District issued Refunding Certificates of Participation in the amount of \$38,069,161. (38,069,161)

Governmental funds report the effect of the deferred amount on refunding when the debt is first issued, where as the amounts are deferred and amortized in the Statement of Activities. 744,160

Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and obligations are reported regardless of when financial resources are available. This adjustment reflects the net changes of the following balances:

Amortization of cost of issuance	(28,609)
Amortization of deferred amount on refunding	(45,510)

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

ORANGE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2013

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Certificates of participation	\$ 51,050,517
Retirement health benefits funding bonds	1,600,000
Capital lease obligations	576,790

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

116,362

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

1,050,628

Change in Net Position of Governmental Activities

\$ 19,499,282

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

ORANGE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 8,763,718
Receivables	2,161
Due from other funds	1,754,020
Total Assets	10,519,899
LIABILITIES	
Current Liabilities	
Accounts payable	108,203
Due to other funds	126
Current portion of claims liability	984,160
Total Current Liabilities	1,092,489
Noncurrent Liabilities	
Noncurrent portion of claims liability and assessment	2,745,840
NET POSITION	
Restricted	6,681,570
Total Net Position	\$ 6,681,570

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

ORANGE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds	<u>\$ 3,746,729</u>
OPERATING EXPENSES	
Payroll costs	110,684
Other operating cost	<u>2,615,749</u>
Total Operating Expenses	<u>2,726,433</u>
Operating Income	<u>1,020,296</u>
NONOPERATING REVENUES	
Interest income	<u>30,332</u>
Change in Net Position	1,050,628
Total Net Position - Beginning	<u>5,630,942</u>
Total Net Position - Ending	<u><u>\$ 6,681,570</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 1,994,216
Cash payments to employees for services	(110,575)
Cash payments for insurance claims	<u>(1,875,604)</u>
Net Cash Provided by Operating Activities	<u>8,037</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>30,332</u>
Net Increase in Cash and Cash Equivalents	38,369
Cash and Cash Equivalents - Beginning	8,725,349
Cash and Cash Equivalents - Ending	<u><u>\$ 8,763,718</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,020,296
Changes in assets and liabilities:	
Receivables	946
Due from other fund	(1,753,459)
Accrued liabilities	14,145
Due to other fund	109
Claims liability	<u>726,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 8,037</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Retiree Benefits Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 121,447,735	\$ 8,979,635
Receivables	5,656	-
Due from other funds	98,264	-
Stores inventories	-	18,516
Total Assets	<u>121,551,655</u>	<u>\$ 8,998,151</u>
LIABILITIES		
Accounts payable	1,548	\$ 5,952
Due to student groups	-	2,150,278
Due to bondholders	-	6,841,921
Total Liabilities	<u>1,548</u>	<u>\$ 8,998,151</u>
NET POSITION		
Restricted	<u>121,550,107</u>	
Total Net Position	<u>\$ 121,550,107</u>	

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

ORANGE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2013**

	Retiree Benefits Trust
ADDITIONS	
Private donations	\$ 9,101,434
District contributions	3,668,182
Interest	59,494
Total Additions	<u>12,829,110</u>
DEDUCTIONS	
Other expenditures	<u>787,363</u>
Change in Net Position	12,041,747
Net Position - Beginning	<u>109,508,360</u>
Net Position - Ending	<u><u>\$ 121,550,107</u></u>

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

Other Related Entities

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Charter Schools Fund The Charter Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund. The District operates El Rancho Charter Middle School that is accounted for in the Charter School Fund.

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

Debt Service Fund This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

Basis of Accounting - Measurement Focus

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2013, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements reports \$22,835,472 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Budgetary Data

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Property Tax

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

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans - pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans - pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans - pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 122,957,800
Fiduciary funds	130,427,370
Total Deposits and Investments	<u><u>\$ 253,385,170</u></u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 11,250,787
Cash in revolving	135,000
Investments	<u>241,999,383</u>
Total Deposits and Investments	<u><u>\$ 253,385,170</u></u>

Policies and Practices

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

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

General Authorizations

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

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

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Authorized Under Debt Agreements

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Interest Rate Risk

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

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

Investment Type	Fair Value	Maturity Date/ Average Maturity in Days	Standard & Poors & Rating
Orange County Investment Pool	\$ 141,027,024	300	AAA
Fidelity Institutional Governmental Money Market Fund	1,165,223	78	AAA
Bayerische Hypo-Und Vereinsbank Commercial Paper	754,600	9/1/2014	Not rated
Mutual Funds			
Blackrock Equity Dividend Institutional Shares	4,183,949	-	Not rated
Brandes Institutional Internal Equity Fund, Class I	4,146,688	-	Not rated
Cohen & Steers Realty Shares Institutional, Class I	2,993,702	-	Not rated
John Hancock Classic Value Fund	4,779,543	-	Not rated
Hartford Capital Appreciation Fund, Class Y	6,101,525	-	Not rated
Hartford MidCap Fund, Class Y	2,289,480	-	Not rated
Nuveen Tradewinds Value Opportunities Fund, Class I	3,307,080	-	Not rated
Nuveen Tradewinds Global All-Cap Fund, Class I	2,885,624	-	Not rated
Prudential Global Real Estate Fund, Class Z	1,026,031	-	Not rated
Royce Global Value Fund, Investment Class	4,851,516	-	Not rated
Royce Special Equity Fund, Investment Class	2,205,496	-	Not rated
Thornburg Investment Income Builder Fund, Class I	3,114,309	-	Not rated
Thornburg International Value Fund, Class I	3,016,731	-	Not rated
Delaware Diversified Income Fund, Institutional Class	9,103,315	-	Not rated
Legg Mason BW Global Opportunities Bond Fund, Class IS	3,772,147	-	Not rated
MetWest Total Return Bond Fund, Class I Shares	9,480,629	-	Not rated
Oppenheimer International Bond Fund, Class Y	4,532,001	-	Not rated
Prudential Total Return Bond Fund, Class Z	9,256,752	-	Not rated
Templeton Global Bond Fund, Advisor Class	8,717,471	-	Not rated
Western Asset Core Plus Bond Fund, Class I	9,207,331	-	Not rated
Total	\$ 241,918,167		

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type. The District's investments in the Fidelity Institutional Governmental Money Market Fund and the Orange County Investment Pool are rated AAA by Standard & Poor's rating services. All other investments types have not been rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's had a bank balance of \$7,428,202 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Federal Government						
Categorical aid	\$ 4,560,855	\$ -	\$ 949,130	\$ -	\$ 5,509,985	\$ -
State Government						
Apportionment	20,362	-	-	-	20,362	-
Categorical aid	1,433,675	-	261,257	-	1,694,932	-
Lottery	2,184,020	-	93,097	-	2,277,117	-
Class size reduction	2,219,273	-	-	-	2,219,273	-
Special education	5,473,808	-	-	-	5,473,808	-
Local Government						
Interest	24,891	3,754	4,753	2,161	35,559	5,656
Due from Orange County Office of Education	854,735	-	-	-	854,735	-
Due from charter school	156,827	-	33,227	-	190,054	-
Other Local Sources	138,478	-	1,477	-	139,955	-
Total	<u>\$ 17,066,924</u>	<u>\$ 3,754</u>	<u>\$ 1,342,941</u>	<u>\$ 2,161</u>	<u>\$ 18,415,780</u>	<u>\$ 5,656</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 19,530,176	\$ -	\$ -	\$ 19,530,176
Construction in progress	52,036,245	10,088,147	29,208,256	32,916,136
Total Capital Assets Not Being Depreciated	<u>71,566,421</u>	<u>10,088,147</u>	<u>29,208,256</u>	<u>52,446,312</u>
Capital Assets Being Depreciated:				
Land improvements	10,952,382	3,800,250	-	14,752,632
Buildings and improvements	133,489,458	25,085,577	-	158,575,035
Furniture and equipment	9,372,796	591,349	-	9,964,145
Total Capital Assets Being Depreciated	<u>153,814,636</u>	<u>29,477,176</u>	<u>-</u>	<u>183,291,812</u>
Total Capital Assets	<u>225,381,057</u>	<u>39,565,323</u>	<u>29,208,256</u>	<u>235,738,124</u>
Less Accumulated Depreciation:				
Land improvements	9,590,989	2,262,970	-	11,853,959
Buildings and improvements	49,830,568	390,621	-	50,221,189
Furniture and equipment	6,044,668	784,906	-	6,829,574
Total Accumulated Depreciation	<u>65,466,225</u>	<u>3,438,497</u>	<u>-</u>	<u>68,904,722</u>
Governmental Activities Capital Assets, Net	<u>\$ 159,914,832</u>	<u>\$ 36,126,826</u>	<u>\$ 29,208,256</u>	<u>\$ 166,833,402</u>

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

Governmental Activities	
Instruction	\$ 2,101,792
Supervision of instruction	113,831
Instructional library, media, and technology	61,906
School administration	245,002
Pupil transportation	102,373
Food services	107,616
Other pupil services	140,907
Ancillary services	21,178
Community services	3,836
Other general administration	90,331
Data processing services	19,066
Plant maintenance and operation	430,659
Total Depreciation Expenses Governmental Activities	<u>\$ 3,438,497</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds and internal service funds:

Due To	Due From				Total
	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 88	\$ 411,665	\$ 126	\$ 411,879
Special Reserve Fund For Capital Outlay Projects	338,352	-	-	-	338,352
Non-Major Governmental Funds	2,153,802	-	-	-	2,153,802
Internal Service Fund	1,745,482	28	8,510	-	1,754,020
Total	\$ 4,237,636	\$ 116	\$ 420,175	\$ 126	\$ 4,658,053

The balance of \$178,635 due to the General Fund from the Charter School Non-Major Governmental Fund resulted from payroll taxes, oversight fee, waste service, postage, and printing charges due.

The balance of \$179,758 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from payroll taxes, indirect costs, transportation, bank, postage, and printing charges due.

A balance of \$410,165 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from transfer of revenues pertaining to the District's charter school operation and reimbursement of employee benefits.

A balance of \$959,196 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from transfer of funds subjected to flexibility committed to the District's deferred maintenance program.

A balance of \$338,352 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from transfer of capital outlay expenditures that exceeded the District's capitalization threshold.

The balance of \$757,620 due to the Debt Service Non-Major Governmental Fund from the General Fund resulted from transfer of funds to cover future principal and interest costs arising from the District's outstanding certificates of participation.

The balance of \$1,745,482 due to the Internal Service Fund from the General Fund resulted from transfer of additional contributions for the District's self-insured workers' compensation program.

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

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Special Reserve Fund For Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	
Special Reserve Fund for Capital Outlay Projects	\$ -	\$ -	\$ 4,314,756	\$ 4,314,756
Non-Major Governmental Funds	959,432	3,289,721	-	4,249,153
Total	<u>\$ 959,432</u>	<u>\$ 3,289,721</u>	<u>\$ 4,314,756</u>	<u>\$ 8,563,909</u>

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for flexible State funds committed for the District's deferred maintenance projects. \$ 959,196

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for sales taxes owed. 236

The Special Reserve Fund for Capital Outlay Projects transferred to the County School Facilities Non-Major Governmental Fund for the District's match of on-going modernization projects. 3,289,721

The County School Facilities Non-Major Governmental Funds transferred to the Special Reserve Fund for Capital Outlay Projects for reimbursement of qualifying capital expenditures. 4,314,756

Total \$ 8,563,909

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Salaries and benefits	\$ 6,720,366	\$ 2,552	\$ 778,081	\$ 8,281	\$ 7,509,280	\$ -
State apportionment	7,863,428	-	86,633	-	7,950,061	-
Supplies	540,255	75,814	187,693	-	803,762	-
Services	1,913,376	95,650	61,432	99,163	2,169,621	-
Due to other charter	327,843	-	-	-	327,843	-
Due to other Districts	230,000	-	-	-	230,000	-
Due to Orange County Department of Education	126,758	-	-	-	126,758	-
Construction	101,666	1,624,728	1,241,019	-	2,967,413	-
Due to retiree benefits trust	82,350	51	15,696	168	98,265	-
Other payables	265,508	1,026	2,118	591	269,243	7,500
Total	<u>\$ 18,171,550</u>	<u>\$ 1,799,821</u>	<u>\$ 2,372,672</u>	<u>\$ 108,203</u>	<u>\$ 22,452,246</u>	<u>\$ 7,500</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 119,156	\$ -	\$ 119,156
State categorical aid	18,556	-	18,556
Other local	9,072	182,666	191,738
Total	<u>\$ 146,784</u>	<u>\$ 182,666</u>	<u>\$ 329,450</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
2003 Certificates of Participation	\$ 48,555,000	\$ -	\$ 48,555,000	\$ -	\$ -
2012 Refunding Certificates of Participation	-	38,069,161	2,495,517	35,573,644	2,382,084
Compensated absences	3,768,487	-	2,168	3,766,319	-
Capital leases payable	9,722,713	-	576,790	9,145,923	361,023
Retirement health benefits funding bonds	89,865,000	-	1,600,000	88,265,000	1,600,000
Supplemental Early Retirement Plan (SERP)	2,058,534	-	2,058,534	-	-
Claims liability	3,004,000	1,710,160	984,160	3,730,000	984,160
	<u>\$ 156,973,734</u>	<u>\$ 39,779,321</u>	<u>\$ 56,272,169</u>	<u>\$ 140,480,886</u>	<u>\$ 5,327,267</u>

Payments on the Certificates of Participation are made by the Debt Service Fund. Capital leases are paid by the General Fund, Child Development Fund, Cafeteria Fund, and Debt Service Fund. Payments on the retirement health benefits funding bonds are made by the General Fund. The accrued vacation was paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

2003 Certificates of Participation

In May 2003, the District, pursuant to a sublease agreement with Orange Schools Financing Corporation (the Corporation), issued the \$53,000,000 Certificates of Participation. The certificates have a final maturity to occur on June 1, 2029, with interest rates ranging from 3.50 to 4.50 percent. A portion of the proceeds from the sale of the certificates were used to provide for the refunding of the District's 1994 Certificates of Participation that was issued in the amount of \$12,435,000. The remaining portion of proceeds was used to finance the construction and modernization of multiple school facilities throughout the District. As of June 30, 2013, there was no outstanding principal balance as they were refunded by the proceeds from the issuance of the 2012 Refunding Certificates of Participation.

2012 Refunding Certificates of Participation

On September 27, 2012, the Orange Unified School District issued the 2012 Refunding Certificates of Participation in the amount of \$38,069,161. The certificates have a final maturity to occur on June 1, 2024, with an interest rate of 2.50 percent. Proceeds from the sale of certificates were used to provide the current refunding of the residual balance on the District's 2003 Certificates of Participation. The refunding resulted in a cumulative cash flow saving of \$3,384,944 over the life of the new debt and an economic gain of \$9,437,500 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.50 percent. As of June 30, 2013, the principal balance outstanding was \$35,573,644.

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

The certificates mature through 2024 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,382,084	\$ 874,453	\$ 3,256,537
2015	2,576,861	813,684	3,390,545
2016	2,777,636	748,007	3,525,643
2017	2,988,918	677,246	3,666,164
2018	2,889,920	603,142	3,493,062
2019-2023	17,707,607	1,805,445	19,513,052
2024	4,250,618	79,699	4,330,317
Total	<u>\$ 35,573,644</u>	<u>\$ 5,601,676</u>	<u>\$ 41,175,320</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$3,766,319.

Capital Leases

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

Balance, July 1, 2012	<u>Equipment</u> \$ 13,700,763
Payments	(1,011,102)
Balance, June 30, 2013	<u>\$ 12,689,661</u>

ORANGE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 774,444
2015	792,110
2016	810,661
2017	830,139
2018	850,590
2019-2023	4,597,348
2024-2028	4,034,369
Total	12,689,661
Less: Amount Representing Interest	(3,543,738)
Present Value of Minimum Lease Payments	<u>\$ 9,145,923</u>

Retirement Health Benefits Funding Bonds

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (The Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562 percent). Proceeds from the sale of bonds were used to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2013, the principal balance of \$88,265,000 remained outstanding, and unamortized cost of issuance was \$853,547.

The bonds mature through 2043 as follows:

June 30,	Principal	Interest	Total
2014	\$ 1,600,000	\$ 923,796	\$ 2,523,796
2015	1,700,000	906,938	2,606,938
2016	2,000,000	888,856	2,888,856
2017	2,100,000	867,805	2,967,805
2018	2,100,000	845,793	2,945,793
2019-2023	11,300,000	3,903,322	15,203,322
2024-2028	14,000,000	3,230,116	17,230,116
2029-2033	16,300,000	2,468,162	18,768,162
2034-2038	20,600,000	1,502,158	22,102,158
2039-2043	16,565,000	467,965	17,032,965
Total	<u>\$ 88,265,000</u>	<u>\$ 16,004,911</u>	<u>\$ 104,269,911</u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2013, amounted to \$3,730,000, using a discount factor of three percent.

NOTE 9 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$15,365,000 as of June 30, 2013, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 100,000	\$ -	\$ 35,000	\$ 135,000
Stores inventories	177,740	-	126,281	304,021
Prepaid expenditures	1,207,192	-	-	1,207,192
Total Nonspendable	1,484,932	-	161,281	1,646,213
Restricted				
Legally restricted programs	5,200,389	-	6,811,450	12,011,839
Capital projects	-	12,667,181	7,320,266	19,987,447
Debt services	-	-	769,022	769,022
Total Restricted	5,200,389	12,667,181	14,900,738	32,768,308
Committed				
Deferred maintenance program	-	-	6,556,190	6,556,190
Assigned				
Non-resident tuition	56,127	-	-	56,127
School site balances	195,338	-	-	195,338
School site/department donations	685,006	-	-	685,006
Instructional materials	570,496	-	-	570,496
Credential support	7,322	-	-	7,322
Advanced placement fee reimbursement	5,080	-	-	5,080
Medi-Cal reimbursement	303,234	-	-	303,234
Adult education CalWorks	29,742	-	-	29,742
Pupil testing	19,399	-	-	19,399
Total Assigned	1,871,744	-	-	1,871,744
Unassigned				
Reserve for economic uncertainties	6,428,842	-	-	6,428,842
Remaining unassigned	60,420,230	-	-	60,420,230
Total Unassigned	66,849,072	-	-	66,849,072
Total	\$ 75,406,137	\$ 12,667,181	\$ 21,618,209	\$ 109,691,527

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Orange Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group. Membership of the Plan consists of 924 retirees and beneficiaries currently receiving benefits, 18 terminated plan members entitled to but not yet receiving benefits, and 1,185 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, OUEA, CSEA and the unrepresented groups. For fiscal year 2012-2013, the District contributed \$9,555,194 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

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

Annual required contribution	\$ 2,744,976
Interest on net OPEB asset	(4,386,636)
Adjustment to annual required contribution	<u>2,376,741</u>
Annual OPEB cost (expense)	735,081
Contributions made	<u>(9,555,194)</u>
Increase in net OPEB asset	8,820,113
Net OPEB asset beginning of year	<u>87,732,704</u>
Net OPEB asset, end of year	<u><u>\$ 96,552,817</u></u>

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2011	\$ (842,484)	\$ 3,637,693	532%	\$ 81,956,613
2012	(2,155,877)	3,620,214	268%	87,732,704
2013	735,081	9,555,194	1300%	96,552,817

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
March 1, 2013	\$ 104,639,822	\$ (47,842,502)	\$ (152,482,324)	319%	\$ 28,305,900	(539)%

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

Actuarial Methods and Assumptions

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

In the March 1, 2013, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 6.2 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial four percent to an ultimate rate of eleven percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2013, was 24 years.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2013, the District contracted with Southern California Regional Liability Excess Fund (SoCal ReLiEF) risk management pool for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Association for Excess Risk (SAFER) for amounts in excess of the District's liability limit up to \$25,000,000.

Workers Compensation

For the fiscal year of 2012-2013, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through Liberty Mutual Insurance Company, a commercial insurance carrier.

Employee Medical Benefits

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

Claims Liabilities

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2011 to June 30, 2013:

	Workers' Compensation
Liability Balance, July 1, 2011	\$ 2,813,000
Claims and changes in estimates	1,020,331
Claims payments	(829,331)
Liability Balance, June 30, 2012	<u>3,004,000</u>
Claims and changes in estimates	1,710,160
Claims payments	(984,160)
Liability Balance, June 30, 2013	<u>\$ 3,730,000</u>
Assets available to pay claims at June 30, 2013	<u><u>\$ 10,519,899</u></u>

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$8,535,407, \$8,467,006, and \$8,538,545, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan member are established by State statute. In accordance with bargaining unit agreements, the District is required to make contributions on behalf of the employee at a rate of 7.0 percent of annual payroll. The District's contribution to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$5,923,170, \$5,625,654, and \$5,529,165, respectively, and equal 100 percent of the required contribution for each year.

Public Agency Retirement System (PARS)

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

During the year, the District's required and actual contributions amounted to \$88,499, which was 1.3 percent of its current-year covered payroll. Employee contributions amounted to \$416,816.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,504,659 (5.176 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Anaheim Hills Elementary	\$ 897,655	8/31/2013
Lampson Elementary	113,414	8/31/2014
Fletcher Elementary	68,156	8/31/2013
El Modena High School	15,787	8/31/2013
	<u>\$ 1,095,012</u>	

ORANGE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

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

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. The audited financial statements are available from the entity. During the year ended June 30, 2013, the District made \$1,000,628, for the coverage noted above.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Revenue limit sources	\$ 132,220,448	\$ 142,164,638	\$ 142,164,638	\$ -
Federal sources	13,150,530	17,047,397	14,889,381	(2,158,016)
Other State sources	44,997,110	48,473,982	53,919,570	5,445,588
Other local sources	8,333,551	8,641,292	8,459,734	(181,558)
Total Revenues ¹	198,701,639	216,327,309	219,433,323	3,106,014
EXPENDITURES				
Current				
Certificated salaries	103,819,473	103,666,967	101,553,922	2,113,045
Classified salaries	32,784,058	33,766,069	33,176,132	589,937
Employee benefits	49,104,860	52,029,475	55,825,266	(3,795,791)
Books and supplies	9,422,788	8,831,012	6,803,067	2,027,945
Services and operating expenditures	18,611,454	21,080,387	16,749,378	4,331,009
Capital outlay	-	101,700	101,666	34
Other outgo	869,017	1,029,321	1,047,589	(18,268)
Debt service - principal	2,334,802	2,340,802	2,176,790	164,012
Debt service - interest	4,642,446	1,488,765	1,406,146	82,619
Total Expenditures ¹	221,588,898	224,334,498	218,839,956	5,494,542
Excess (Deficiency) of Revenues Over Expenditures	(22,887,259)	(8,007,189)	593,367	8,600,556
Other Financing Sources				
Transfers out	-	(965,393)	(959,432)	5,961
NET CHANGE IN FUND BALANCES	(22,887,259)	(8,972,582)	(366,065)	8,606,517
Fund Balances - Beginning	66,948,825	75,772,202	75,772,202	-
Fund Balances - Ending	\$ 44,061,566	\$ 66,799,620	\$ 75,406,137	\$ 8,606,517

¹ On behalf payments of \$5,504,659 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
December 1, 2009	\$ 97,237,770	\$ (40,750,535)	\$ (137,988,305)	339%	\$ 41,711,505	(331)%
June 1, 2011	106,455,005	(52,725,881)	(159,180,886)	302%	25,588,697	(622)%
March 1, 2013	104,639,822	(47,842,502)	(152,482,324)	319%	28,305,900	(539)%

SUPPLEMENTARY INFORMATION

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060	[1]	\$ 68,646
Readiness and Emergency Management for Schools	84.184E	[1]	152,063
Passed through California Department of Education (CDE)			
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies:			
Title I, Part A - Low Income and Neglected	84.010	14329	4,751,066
Title I, Part A - Program Improvement LEA Corrective	84.010	14955	<u>683,915</u>
Subtotal Title I Grants to Local Educational Agencies			<u>5,434,981</u>
Improving Teacher Quality State Grants:			
Title II, Part A - Improving Teacher Quality	84.367	14341	887,425
Title II, Part A - Administrator Training Program	84.367	14344	<u>17,999</u>
Subtotal Improving Teacher Quality State Grants			<u>905,424</u>
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	7,465
Title III, Part A - Limited English Proficient Student Program	84.365	14346	700,852
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	5,378,600
Local Assistance Private Schools ISP	84.027	10115	18,694
Preschool Grant, Part B	84.173	13430	133,958
Preschool Staff Development	84.173A	13431	2,706
Mental Health Services	84.027A	14468	411,262
Preschool Local Entitlement	84.027A	13682	<u>265,440</u>
Subtotal Special Education (IDEA) Cluster			<u>6,210,660</u>
Early Intervention Grants	84.181	23761	<u>86,305</u>
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Secondary Education	84.048	14894	<u>191,316</u>
Total U.S. Department of Education			<u>13,757,712</u>

[1] Direct-award, no PCA number.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Child Development - California State Preschool Program	93.596	13609, 15136	\$ 115,688
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	1,254,808
Medi-Cal Administrative Activities	93.778	10060	227,405
Subtotal Medi-Cal Assistance Program			<u>1,482,213</u>
Total U.S. Department of Health and Human Services			<u>1,597,901</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	4,211,066
Meal Supplements	10.555	13396	8,824
Basic School Breakfast Program	10.553	13390	1,146,956
Especially Needy Breakfast Program	10.553	13526	151,460
Commodities	10.555	13396	433,045
Subtotal Child Nutrition Cluster			<u>5,951,351</u>
Total U.S. Department of Agriculture			<u>5,951,351</u>
Total Federal Programs			<u><u>\$ 21,306,964</u></u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Timothy Surridge	President	2014
Alexia L Deligianni, Ed.D	Vice President	2016
Mark D. Wayland	Clerk	2016
Rick Ledesma	Member	2014
Kathryn A. Moffat	Member	2014
John Ortega	Member	2016
Diane Singer	Member	2014

ADMINISTRATION

Michael C. Christensen, MBA	Superintendent
Joe Sorrera	Assistant Superintendent, Business Services/CBO
Ed Kisse	Assistant Superintendent, Human Resources
Gunn Marie Hansen, Ph.D	Assistant Superintendent, Educational Services

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Report	
	40C04DB6 Second Period Report	1DD451EE Annual Report
ELEMENTARY		
Kindergarten	2,144	2,146
First through third	6,209	6,206
Fourth through sixth	6,207	6,203
Seventh and eighth	2,265	2,259
Home and hospital	17	19
Special education	711	719
Community day school	5	7
Total Elementary	17,558	17,559
SECONDARY		
Regular classes	8,254	8,219
Continuation education	325	309
Home and hospital	35	38
Special education	400	397
Community day school	27	26
Total Secondary	9,041	8,989
Total K-12	26,599	26,548
	Final Report	
	057D6F4E Second Period Report	B9BF0562 Annual Report
CHARTER SCHOOL		
Seventh and eighth (classroom based)	1,157	1,155
Seventh and eighth (non-classroom based)	1	1
Total	1,158	1,156

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013**

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	46,710	175	-	Complied
Grades 1 - 3	43,324	42,121	50,400	49,000				
Grade 1					49,340	175	-	Complied
Grade 2					49,340	175	-	Complied
Grade 3					49,340	175	-	Complied
Grades 4 - 6	49,774	48,391	54,000	52,500				
Grade 4					52,580	175	-	Complied
Grade 5					52,580	175	-	Complied
Grade 6					52,580	175	-	Complied
Grades 7 - 8	62,589	60,850	54,000	52,500				
Grade 7					61,096	175	-	Complied
Grade 8					61,096	175	-	Complied
Grades 9 - 12	62,300	60,569	64,800	63,000				
Grade 9					63,000	175	-	Complied
Grade 10					63,000	175	-	Complied
Grade 11					63,000	175	-	Complied
Grade 12					63,000	175	-	Complied

CHARTER SCHOOL

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Grades 7 - 8	*	*	54,000	52,457				
Grade 7					63,054	180	-	Complied
Grade 8					63,612	180	-	Complied

* Charter was not in operation prior to the 2002/2003 fiscal year.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

	(Budget)			
	2014 ¹	2013	2012	2011
GENERAL FUND				
Revenues	\$ 219,098,470	\$ 219,433,323	\$ 230,768,154	\$ 233,067,617
Other sources	-	-	-	422,688
Total Revenues and Other Sources	219,098,470	219,433,323	230,768,154	233,490,305
Expenditures	233,944,263	218,839,956	213,969,347	211,493,239
Other uses and transfers out	959,196	959,432	964,921	-
Total Expenditures and Other Uses	234,903,459	219,799,388	214,934,268	211,493,239
INCREASE (DECREASE) IN FUND BALANCES	\$ (15,804,989)	\$ (366,065)	\$ 15,833,886	\$ 21,997,066
ENDING FUND BALANCES	\$ 59,601,148	\$ 75,406,137	\$ 75,772,202	\$ 59,938,316
AVAILABLE RESERVES ²	\$ 58,495,018	\$ 66,849,072	\$ 67,868,057	\$ 50,095,454
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	24.90%	31.19%	32.38%	24.21%
LONG-TERM OBLIGATIONS	N/A	\$ 140,480,886	\$ 156,973,734	\$ 161,286,488
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	26,439	26,599	26,978	27,079

The General Fund balance has increased by \$15,467,821 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$15,804,989 (21.0 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have decreased by \$20,805,602 over the past two years.

Average daily attendance has decreased by 480 over the past two years. Additional decline of 160 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$5,504,659, \$5,348,075 and \$4,538,368 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012 and 2011, respectively.

⁴ Excludes charter school ADA.

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

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

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Charter School Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS									
Deposits and investments	\$ 3,007,188	\$ 992,184	\$ 2,643,058	\$ 5,619,137	\$ 3,076,327	\$ 1,491,802	\$ 4,129,717	\$ 11,285	\$ 20,970,698
Receivables	273,506	3,973	1,028,934	34,663	784	381	583	117	1,342,941
Due from other funds	410,165	23,471	-	959,196	3,350	-	-	757,620	2,153,802
Stores inventories	-	-	126,281	-	-	-	-	-	126,281
Total Assets	\$ 3,690,859	\$ 1,019,628	\$ 3,798,273	\$ 6,612,996	\$ 3,080,461	\$ 1,492,183	\$ 4,130,300	\$ 769,022	\$ 24,593,722
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 201,910	\$ 393,696	\$ 338,398	\$ 56,806	\$ 33,197	\$ 1,014,495	\$ 334,170	\$ -	\$ 2,372,672
Due to other funds	179,274	56,970	183,115	-	816	-	-	-	420,175
Deferred revenue	-	-	182,666	-	-	-	-	-	182,666
Total Liabilities	381,184	450,666	704,179	56,806	34,013	1,014,495	334,170	-	2,975,513
Fund Balances:									
Nonspendable	25,000	-	136,281	-	-	-	-	-	161,281
Restricted	3,284,675	568,962	2,957,813	-	3,046,448	477,688	3,796,130	769,022	14,900,738
Committed	-	-	-	6,556,190	-	-	-	-	6,556,190
Total Fund Balances	3,309,675	568,962	3,094,094	6,556,190	3,046,448	477,688	3,796,130	769,022	21,618,209
Total Liabilities and Fund Balances	\$ 3,690,859	\$ 1,019,628	\$ 3,798,273	\$ 6,612,996	\$ 3,080,461	\$ 1,492,183	\$ 4,130,300	\$ 769,022	\$ 24,593,722

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	Charter School Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES									
Revenue limit sources	\$ 6,194,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,194,997
Federal sources	-	115,688	5,951,351	-	-	-	-	-	6,067,039
Other State sources	870,741	518,280	449,910	959,196	-	4,934,582	-	-	7,732,709
Other local sources	89,753	4,497,870	1,772,535	51,794	358,215	7,402	10,686	3,891,517	10,679,772
Total Revenues	7,155,491	5,131,838	8,173,796	1,010,990	358,215	4,941,984	10,686	3,891,517	30,674,517
EXPENDITURES									
Current									
Instruction	3,848,856	4,284,078	-	-	-	-	-	-	8,132,934
Instruction-related activities:									
Supervision of instruction	-	4,871	-	-	-	-	-	-	4,871
Instructional library, media, and technology	125,877	3,549	-	-	-	-	-	-	129,426
School site administration	981,452	929,506	-	-	-	-	-	-	1,910,958
Pupil services:									
Home-to-school transportation	124,708	-	-	-	-	-	-	-	124,708
Food services	3,104	-	7,337,210	-	-	-	-	-	7,340,314
All other pupil services	166,150	2,904	-	-	-	-	-	-	169,054
Administration:									
All other administration	1,686	126,689	176,827	-	3,386	-	-	-	308,588
Plant services	518,813	31,883	-	580,174	-	-	-	-	1,130,870
Facility acquisition and construction	-	-	-	-	682,553	4,889,253	1,007,772	-	6,579,578
Ancillary services	24,124	-	-	-	-	-	-	-	24,124
Other outgo	1,171,647	-	-	-	-	-	-	1,214,161	2,385,808
Debt service									
Principal	-	-	-	-	-	-	-	2,495,517	2,495,517
Interest and other	-	-	-	-	-	-	-	629,464	629,464
Total Expenditures	6,966,417	5,383,480	7,514,037	580,174	685,939	4,889,253	1,007,772	4,339,142	31,366,214
Excess (Deficiency) of Revenues Over Expenditures	189,074	(251,642)	659,759	430,816	(327,724)	52,731	(997,086)	(447,625)	(691,697)
Other Financing Sources (Uses)									
Transfers in	-	-	236	959,196	-	3,289,721	-	-	4,249,153
Other sources - proceeds from issuance of certificates of participation	-	-	-	-	-	-	-	38,069,161	38,069,161
Transfers out	-	-	-	-	-	(4,314,756)	-	-	(4,314,756)
Other uses - payment to refunded certificates of participation escrow agent	-	-	-	-	-	-	-	(48,555,000)	(48,555,000)
Net Financing Sources (Uses)	-	-	236	959,196	-	(1,025,035)	-	(10,485,839)	(10,551,442)
NET CHANGE IN FUND BALANCES	189,074	(251,642)	659,995	1,390,012	(327,724)	(972,304)	(997,086)	(10,933,464)	(11,243,139)
Fund Balances - Beginning	3,120,601	820,604	2,434,099	5,166,178	3,374,172	1,449,992	4,793,216	11,702,486	32,861,348
Fund Balances - Ending	\$ 3,309,675	\$ 568,962	\$ 3,094,094	\$ 6,556,190	\$ 3,046,448	\$ 477,688	\$ 3,796,130	\$ 769,022	\$ 21,618,209

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2013

	Actual Results for the Years					
	2012-2013		2011-2012		2010-2011	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 14,889,381	6.8	\$ 20,293,885	8.8	\$ 22,076,170	9.5
State and local revenue included in revenue limit	142,164,638	64.8	147,994,098	64.1	148,584,529	63.8
Other State revenue	53,919,570	24.5	53,995,017	23.4	54,786,117	23.5
Other local revenue	8,459,734	3.9	8,485,154	3.7	7,620,801	3.2
Total Revenues	219,433,323	100.0	230,768,154	100.0	233,067,617	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	101,553,923	46.3	103,630,406	44.9	104,725,522	44.9
Classified salaries	33,176,132	15.1	33,150,144	14.4	32,671,416	14.0
Employee benefits	55,825,264	25.5	46,922,052	20.4	47,370,376	20.4
Total Salaries and Benefits	190,555,319	86.9	183,702,602	79.7	184,767,314	79.3
Books and supplies	6,803,067	3.1	6,512,033	2.8	6,203,808	2.7
Contracts and operating expenses	16,749,379	7.7	16,977,060	7.4	16,827,003	7.2
Capital outlay	101,666	0.0	79,276	0.0	33,040	0.0
Other outgo	4,630,525	2.1	6,698,376	2.9	3,662,074	1.6
Total Expenditures	218,839,956	99.8	213,969,347	92.8	211,493,239	90.8
EXCESS OF REVENUES OVER EXPENDITURES	593,367	0.2	16,798,807	7.2	21,574,378	9.2
OTHER FINANCING SOURCES (USES)						
Transfers in	-	0.0	-	0.0	422,688	0.2
Transfers out	(959,432)	(0.4)	(964,921)	(0.4)	-	0.0
INCREASE (DECREASE) IN FUND BALANCE	(366,065)	(0.2)	15,833,886	6.8	21,997,066	9.4
FUND BALANCE, BEGINNING	75,772,202		59,938,316		37,941,250	
FUND BALANCE, ENDING	<u>\$ 75,406,137</u>		<u>\$ 75,772,202</u>		<u>\$ 59,938,316</u>	

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Actual Results for the Years					
	2012-2013		2011-2012		2010-2011	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal	\$ 5,951,351	72.8	\$ 5,860,360	71.3	\$ 5,666,312	69.4
State meal program	449,910	5.5	467,893	5.7	434,671	5.3
Food sales	1,714,572	21.0	1,863,758	22.7	2,000,614	24.5
Other	57,963	0.7	24,913	0.3	62,656	0.8
Total Revenues	<u>8,173,796</u>	<u>100.0</u>	<u>8,216,924</u>	<u>100.0</u>	<u>8,164,253</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	3,504,461	42.9	3,527,555	42.9	3,473,991	42.6
Food	3,420,465	41.8	3,199,672	38.9	3,275,852	40.1
Supplies	178,674	2.1	136,739	1.6	129,049	1.5
Other	410,437	5.1	304,166	3.8	389,829	4.8
Total Expenditures	<u>7,514,037</u>	<u>91.9</u>	<u>7,168,132</u>	<u>87.2</u>	<u>7,268,721</u>	<u>89.0</u>
INCREASE IN FUND BALANCE	659,759	<u>8.1</u>	1,048,792	<u>12.8</u>	895,532	<u>11.0</u>
OTHER FINANCING USES						
Transfers in	236	0.0	-	0.0	-	0.0
Transfers out	-	<u>0.0</u>	-	<u>0.0</u>	(381,801)	<u>(4.7)</u>
FUND BALANCE, BEGINNING	<u>2,434,099</u>		<u>1,385,307</u>		<u>871,576</u>	
FUND BALANCE, ENDING	<u>\$ 3,094,094</u>		<u>\$ 2,434,099</u>		<u>\$ 1,385,307</u>	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2012-2013		2011-2012		2010-2011	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	460,465	24.3	340,044	18.5	353,307	19.8
Reduced price	146,778	7.8	145,138	7.9	156,335	8.7
Free	1,285,536	67.9	1,356,097	73.6	1,278,514	71.5
Total Lunches	<u>1,892,779</u>	<u>100.0</u>	<u>1,841,279</u>	<u>100.0</u>	<u>1,788,156</u>	<u>100.0</u>
BREAKFAST						
Paid	39,100	5.9	39,591	5.9	31,353	5.2
Reduced price	46,149	6.9	44,476	6.6	41,202	6.9
Free	581,242	87.2	586,009	87.5	526,971	87.9
Total Breakfast	<u>666,491</u>	<u>100.0</u>	<u>670,076</u>	<u>100.0</u>	<u>599,526</u>	<u>100.0</u>

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that have been recorded in the current period as revenues and have not been expended as of June 30, 2013. These unspent balances are reported as legally restricted ending balances within the General Fund. Additionally, although Title I, Part G - Advanced Placement Test Fee Reimbursement Program and Medi-Cal Administrative Activities funds are considered unrestricted funds, the District monitors and tracks both of the programs' activities under the assigned fund balance in the General Fund and the following schedule outlines the differences in program expenditures in comparison to current year's revenues received:

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 20,956,420
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	(3,036)
Medi-Cal Billing Option	93.778	249,910
Medi-Cal Administrative Activities	93.778	103,670
Total Schedule of Expenditures of Federal Awards		<u>\$ 21,306,964</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

ORANGE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Orange Unified School District
Orange, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Orange Unified School District's basic financial statements, and have issued our report thereon dated November 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orange Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orange Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Orange Unified School District in a separate letter dated November 6, 2013.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VADRENSE TRINE, Day + Co. CP

Rancho Cucamonga, California
November 6, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Orange Unified School District
Orange, California

Report on Compliance for Each Major Federal Program

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's (the District) major Federal programs for the year ended June 30, 2013. Orange Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orange Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Orange Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

VADZINSKY, TIZNE, Day + Co. CP

Rancho Cucamonga, California
November 6, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Orange Unified School District
Orange, California

Report on State Compliance

We have audited Orange Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the Orange Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orange Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Other Programs

In our opinion, Orange Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	No, see below
Determination of Funding for Non Classroom-Based Instruction	3	Not applicable
Annual Instruction Minutes Classroom-Based	4	Yes

We did not perform testing for Independent Study and Charter School Independent Study because it did not meet the materiality threshold. Additionally, we did not perform steps related to Work Experience for Continuation Education because it was not offered by the District.

VADIRSK TRINE, Day + Co, LLP

Rancho Cucamonga, California
November 6, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ORANGE UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A	<u>Special Education (IDEA) Cluster</u>
<u>10.555, 10.553</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 636,190</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
Orange Unified School District
Orange, California

In planning and performing our audit of the financial statements of Orange Unified School District for the year ended June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 6, 2013, on the financial statements of Orange Unified School District.

ASSOCIATED STUDENT BODY (ASB)

El Rancho Charter School

Observation

Based on our review of sample ASB disbursements the following observation was made:

- In connection with Check #9722, #9762, and #9764, ASB funds appear to have been utilized for the acquisition of classroom supplies.

Recommendation

The ASB funds are intended for extracurricular and enrichment activities and should not be used to supplant the site's operating fund. In all of the instances identified based on our sampling, ASB funds were used to acquire regular classroom materials. The ASB should more carefully review its disbursements to ensure that supplanting of District activities with ASB funds does not take place.

Portola Middle School

Observations

Based on our review of sample ASB disbursements the following observation was made:

- 1) The majority of the disbursements in connection with acquisition of goods were paid without explicit documentation of goods being received by the ASB.
- 2) Check #5177 was drafted with the intent of purchasing books for a teacher in need. Further inquiry revealed that the ASB accepted a donation from an outside organization intended for teachers.
- 3) Check #5173 was missing the required Assistant Principals signature.

Recommendations

The following are recommendation for the observations made:

- 1) The ASB should ensure that sufficient receiving documentation is available to substantiate payments for acquisition or receipt of goods ordered. Without such documentation, the ASB may create an appearance that it is paying on invoices received without verifying if the goods were received by the ASB.
- 2) Funds intended for teachers should be accounted for in a different account. The ASB account should not serve as a pass-through account for other activities.
- 3) The ASB disbursement form explicitly requires three signatures and all disbursements should be authorized by the three designated site personnel prior to disbursements taking place.

El Modena High School

Timeliness of Cash Deposits

Observation

During our review of the ASB procedures over cash receipts, we noted that deposits selected for testing for the sample month were not made in a timely manner. Delay in deposits ranged from 11 to 15 days from the date of initial cash receipts.

Recommendation

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Cash Receipts/Handling Procedures

Observations

The following observations were made concerning the ASB's cash receipting/handing procedures:

- 1) Not all deposits are being remitted by club advisors. Instead, students are being delegated to bring in cash deposits to the ASB. This practice exposes students to unnecessary risk.
- 2) Cash deposits remitted by club advisors are not being counted immediately with both parties (advisor and ASB bookkeeper) present.
- 3) Remitted deposits from club advisors are not accompanied by supporting documents to verify completeness of the deposit. Deposits are only accompanied by a "Deposit Worksheet" which identifies the cash denominations remitted to the ASB.

Recommendations

- 1) Club advisors should always practice remitting cash deposits to the ASB themselves. Students should not be exposed to unnecessary risk of loss or theft under any circumstances.
- 2) In order to assign accountability and to verify accountability of cash, cash should always be counted in the presence of both the remitting party and the accepting party. This allows both parties to immediately resolve discrepancies that may arise during the physical counting of cash. The ASB's "Deposit Worksheet" should be modified to include a field where the remitting party also confirms the physical count of cash.
- 3) Due to the high level of susceptibility to theft or loss, accountability of cash should be assigned to all steps during the cash receipting/depositing procedures. In order to ensure completeness of cash remitted by club advisors, deposits must be accompanied by receipts or other supporting documents that can assist in the reconciliation of cash remitted to the ASB.

Track Meet

Observations

The following deficiencies were noted per review of the Track Meet that took place during the 2012-2013 fiscal year:

- 1) Inquiries with site personnel indicated that entrance fees ("gate receipts") were levied. However, it appears that supporting documents are not available to reconcile and to substantiate how much entrance fees were collected.
- 2) Inquiries with site personnel indicated that concession sales activities took place during the course of the event. However, it appears that supporting documents are not available to reconcile and to substantiate how much cash was collected in connection with the concession sales.
- 3) Per review of documents made available during our review, it appears that T-Shirts were sold during the event. However, there were no supporting documents to substantiate the completeness of cash collected from this sales activity.

Recommendation

The District has various internal control procedures implemented over the collection of cash through ASB channels. All ASB sponsored activities should adhere to applicable implemented procedures to ensure accountability of cash collected. Additionally, extra caution should be exercised when high volumes of cash transactions are present during a single event due to the elevated level of risk associated with theft or loss. Such activities should inherently trigger a stronger need to ensure compliance to established procedures.

Open Purchase Orders

Observation

The ASB currently appears to be engaged with utilizing liberally defined open purchase orders for many of its disbursement functions. For example, an open purchase order with the label of "Prom related expenses" was created for a relatively high dollars threshold to cover all transactions related to Prom. Additionally, multiple trust accounts (clubs) were authorized to create open purchase orders with the scope defined as "Miscellaneous Expense".

Recommendations

While this practice appears to substantiate that the ASB was directly engaged in the review and approval of the purchase order, this practice circumvents the intent of using purchase orders. Purchase orders serve two primary purposes within the scope of ASB activities as follows:

- 1) They allow the ASB to monitor available funds to cover proposed disbursement activities.
- 2) They allow the ASB to review the scope of proposed disbursement activity to verify if the activity is allowable.

By creating large open purchase orders with high dollar thresholds and a broad range of authorized activities, the ASB becomes more susceptible to overspending and the risk of engaging in disbursement activities that are questionable. All purchase orders should be created to limit the scope of authorized activities. Amounts authorized for open purchase orders should be restricted to purchases that are necessary for every day operation (i.e., supplies). Furthermore, amounts authorized should be determined using reasonable estimates instead of arbitrary amounts.

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

VADRENSK TIRINE, Day + Co, LLP

Rancho Cucamonga, California
November 6, 2013