

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



FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2012
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For the Fiscal Year Ended June 30, 2012

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Fontana Unified School District
Fontana, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fontana Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

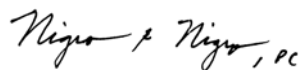
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of Fontana Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and budgetary comparison information and schedule of funding progress on pages 51 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fontana Unified School District's financial statements as a whole. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



November 27, 2012

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

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

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net assets of governmental activities decreased by \$1.0 million, or 0.2%.
- Governmental expenses were about \$380.9 million. Revenues were about \$379.9 million.
- The District spent over \$17.6 million in new capital assets during the year. These expenditures were incurred primarily from general obligation bonds.
- The District decreased its outstanding long-term debt by \$5.2 million. This was primarily due to the general obligation bond payments.
- Grades K-12 average daily attendance (ADA) decreased by 161, or 0.4%.

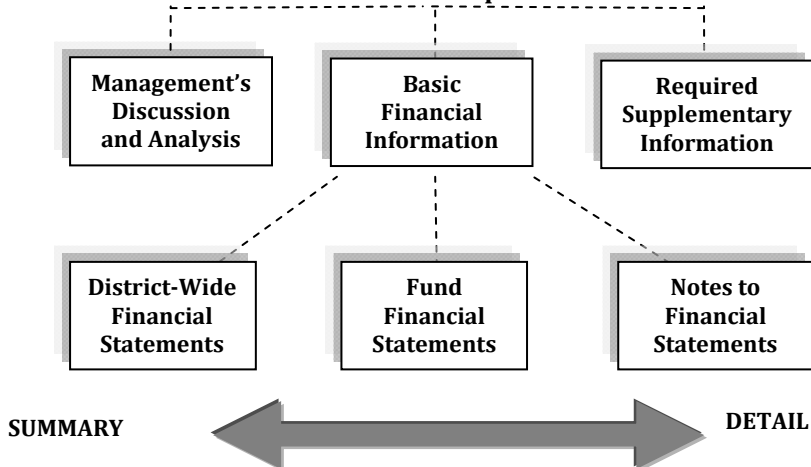
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

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

Fund Financial Statements (continued)

- 2) **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers compensation claims.
- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were lower on June 30, 2012, than they were the year before – decreasing 0.2% to \$427.2 million. (See Table A-1.)

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2012	2011	
Current assets	\$ 262.0	\$ 271.8	\$ (9.8)
Noncurrent assets	4.4	4.8	(0.4)
Capital assets	595.3	598.0	(2.7)
Total assets	861.7	874.6	(12.9)
Current liabilities	34.3	41.0	(6.7)
Long-term liabilities	400.2	405.4	(5.2)
Total liabilities	434.5	446.4	(11.9)
Net assets			
Invested in capital assets, net			
of related debt	337.5	335.3	2.2
Restricted	91.4	88.4	3.0
Unrestricted	(1.7)	4.5	(6.2)
Total net assets	\$ 427.2	\$ 428.2	\$ (1.0)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues decreased 3.1% to \$379.9 million (See Table A-2). The decrease is due primarily to the \$23.5 million State School Facility Grant received in 2010-11.

The total cost of all programs and services increased 4.7% to \$380.9 million. The District's expenses are predominantly related to educating and caring for students, 76.7%. The purely administrative activities of the District accounted for just 3.1% of total costs. A significant contributor to the increase in costs was the increase in instructional employees and pupil services.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2012	2011	
Total Revenues	\$ 379.9	\$ 392.0	\$ (12.1)
Total Expenses	380.9	363.1	17.8
Increase (decrease) in net assets	\$ (1.0)	\$ 28.9	\$ (29.9)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$226.6 million, which is above last year's ending fund balance of \$226.1 million. The primary cause of the increased fund balance is revenue received in the food service program.

General Fund Budgetary Highlights

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

- Revenues – increased by \$20.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$13.6 million due to increase in instructional staffing.
- Other non-personnel expenses – increased \$27.8 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about \$15.1 million, the actual results for the year show that revenues exceeded expenditures by roughly \$4.8 million. Actual revenues were \$6.7 million less than anticipated, but expenditures were \$26.7 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2012 that will be carried over into the 2012-13 budget.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$17.6 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$20.3 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011	
Land	\$ 58.9	\$ 58.9	\$ 0.0
Improvement of sites	40.6	37.6	3.0
Buildings	475.0	454.6	20.4
Equipment	8.4	7.4	1.0
Construction in progress	12.4	39.5	(27.1)
Total	<u>\$ 595.3</u>	<u>\$ 598.0</u>	<u>\$ (2.8)</u>

Long-Term Debt

At year-end the District had \$400.2 million in general obligation bonds, bond anticipation notes, certificates of participation, QZABs, and employment benefits – a decrease of 1.3% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011	
General obligation bonds	\$ 212.3	\$ 217.3	\$ (5.0)
Bond anticipation notes	104.0	103.0	1.0
Certificates of participation	45.5	46.7	(1.2)
QZAB	3.2	3.5	(0.3)
Compensated absences	1.8	1.5	0.3
Supplemental retirement	6.9	10.9	(4.0)
Other postemployment benefits	26.5	22.5	4.0
Total	<u>\$ 400.2</u>	<u>\$ 405.4</u>	<u>\$ (5.2)</u>

FONTANA UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2012

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

K-12 Education

Spending Roughly Flat

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

Mandate Block Grant Adopted

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

Final Shift of Student Mental Health Service Funding

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

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

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

Governor Vetoes Funding for Certain K-12 Programs

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Fiscal Services Office at (909) 357-7600.

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

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	\$ 134,732,222
Investments	13,757,390
Accounts receivable	113,266,508
Inventories	159,964
Prepaid expenses	111,528
Total current assets	<u>262,027,612</u>
Noncurrent assets:	
Unamortized debt issuance costs	<u>4,342,827</u>
Capital assets:	
Non-depreciable assets	71,242,534
Depreciable assets	723,305,987
Less accumulated depreciation	<u>(199,258,160)</u>
Total capital assets, net of depreciation	<u>595,290,361</u>
Total assets	<u>861,660,800</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	33,435,550
Deferred revenue	842,434
Total current liabilities	<u>34,277,984</u>
Long-term liabilities:	
Portion due or payable within one year	117,378,320
Portion due or payable after one year	282,834,691
Total long-term liabilities	<u>400,213,011</u>
Total liabilities	<u>434,490,995</u>
 NET ASSETS	
Invested in capital assets, net of related debt	337,467,137
Restricted for:	
Capital projects	47,225,460
Debt service	17,294,991
Categorical programs	26,842,894
Unrestricted	<u>(1,660,677)</u>
Total net assets	<u>\$ 427,169,805</u>

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities					
Instructional Services:					
Instruction	\$ 208,831,713	\$ 378,856	\$ 50,383,983	\$ 4,480,802	\$ (153,588,072)
Instruction-Related Services:					
Supervision of instruction	23,635,251	106,344	22,881,458	-	(647,449)
Instructional library, media and technology	3,298,502	-	-	-	(3,298,502)
School site administration	21,121,895	1,550	443,706	-	(20,676,639)
Pupil Support Services:					
Home-to-school transportation	3,897,703	16,020	1,419,184	-	(2,462,499)
Food services	17,884,807	2,197,791	19,507,336	-	3,820,320
All other pupil services	13,354,514	20,451	3,312,245	-	(10,021,818)
General Administration Services:					
Data processing services	4,930,719	-	29,016	-	(4,901,703)
Other general administration	6,998,017	26,814	1,831,382	-	(5,139,821)
Plant services	38,723,649	607,717	484,631	-	(37,631,301)
Ancillary services	18,791	-	-	-	(18,791)
Community services	23,748	-	-	-	(23,748)
Interest on long-term debt	17,799,245	-	-	-	(17,799,245)
Other outgo	41,689	2,393,009	161,274	-	2,512,594
Depreciation (unallocated)	20,356,125	-	-	-	(20,356,125)
Total Governmental Activities	<u>\$ 380,916,368</u>	<u>\$ 5,748,552</u>	<u>\$ 100,454,215</u>	<u>\$ 4,480,802</u>	<u>(270,232,799)</u>

General Revenues:

Property taxes	34,427,389
Federal and state aid not restricted to specific purpose	226,616,562
Interest and investment earnings	559,567
Miscellaneous	7,612,047
Total general revenues	<u>269,215,565</u>
Change in net assets	(1,017,234)
Net assets - July 1, 2011	<u>428,187,039</u>
Net assets - June 30, 2012	<u>\$ 427,169,805</u>

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

	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 18,201,196	\$ 9,720,568	\$ 59,285,525	\$ 37,959,843	\$ 125,167,132
Investments	-	-	-	13,757,390	13,757,390
Accounts receivable	107,800,925	4,187,633	72,156	1,189,504	113,250,218
Due from other funds	2,310,689	34,956	1,000,001	46,782,461	50,128,107
Inventories	66,605	93,359	-	-	159,964
Prepaid expenditures	111,528	-	-	-	111,528
Total Assets	<u>\$ 128,490,943</u>	<u>\$ 14,036,516</u>	<u>\$ 60,357,682</u>	<u>\$ 99,689,198</u>	<u>\$ 302,574,339</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 22,042,811	\$ 193,919	\$ 1,393,777	\$ 1,392,130	\$ 25,022,637
Due to other funds	46,845,380	1,166,860	-	2,092,285	50,104,525
Deferred revenue	440,248	-	-	402,186	842,434
Total Liabilities	<u>69,328,439</u>	<u>1,360,779</u>	<u>1,393,777</u>	<u>3,886,601</u>	<u>75,969,596</u>
Fund Balances					
Nonspendable	253,133	104,489	-	-	357,622
Restricted	13,926,281	12,571,248	58,963,905	92,189,104	177,650,538
Committed	27,886,992	-	-	3,613,493	31,500,485
Assigned	4,698,832	-	-	-	4,698,832
Unassigned	12,397,266	-	-	-	12,397,266
Total Fund Balances	<u>59,162,504</u>	<u>12,675,737</u>	<u>58,963,905</u>	<u>95,802,597</u>	<u>226,604,743</u>
Total Liabilities and Fund Balances	<u>\$ 128,490,943</u>	<u>\$ 14,036,516</u>	<u>\$ 60,357,682</u>	<u>\$ 99,689,198</u>	<u>\$ 302,574,339</u>

FONTANA UNIFIED SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 226,604,743

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	794,548,521	
Accumulated depreciation:	<u>(199,258,160)</u>	
Net:		595,290,361

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included on the statement of net assets are: 4,342,827

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (4,108,980)

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

General obligation bonds payable	212,269,692	
Bond anticipation notes payable	103,976,057	
Certificates of participation payable	45,486,496	
QZAB bonds payable	3,243,964	
Compensated absences	1,768,052	
Supplemental early retirement	6,894,486	
Other postemployment benefits payable	<u>26,574,264</u>	
Total		(400,213,011)

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

5,253,865

Total net assets - governmental activities \$ 427,169,805

FONTANA UNIFIED SCHOOL DISTRICT

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

	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 206,818,200	\$ -	\$ -	\$ -	\$ 206,818,200
Federal sources	34,334,592	17,870,411	-	1,855,874	54,060,877
Other state sources	69,878,488	1,426,836	-	10,349,048	81,654,372
Other local sources	3,730,881	2,407,881	281,976	25,006,519	31,427,257
Total Revenues	314,762,161	21,705,128	281,976	37,211,441	373,960,706
EXPENDITURES					
Instructional Services:					
Instruction	201,631,674	-	-	5,027,636	206,659,310
Instruction-Related Services:					
Supervision of instruction	21,154,990	-	-	2,244,384	23,399,374
Instructional library, media and technology	3,230,153	-	-	-	3,230,153
School site administration	20,424,979	-	-	174,213	20,599,192
Pupil Support Services:					
Home-to-school transportation	3,840,872	-	-	-	3,840,872
Food services	14,964	17,712,089	-	-	17,727,053
All other pupil services	12,742,704	-	-	379,201	13,121,905
Ancillary services	18,791	-	-	-	18,791
Community services	23,748	-	-	-	23,748
General Administration Services:					
Data processing services	4,871,526	-	-	-	4,871,526
Other general administration	6,528,927	799,859	-	461,618	7,790,404
Plant services	34,426,594	129,147	2,140,015	1,716,602	38,412,358
Facility acquisition and construction	709,084	-	5,368,893	5,555,109	11,633,086
Other outgo:					
Transfers between agencies	41,689	-	-	-	41,689
Debt service - issuance costs	270,951	-	-	125	271,076
Debt service - principal	-	-	-	5,343,713	5,343,713
Debt service - interest	-	-	2,840,000	13,589,984	16,429,984
Total Expenditures	309,931,646	18,641,095	10,348,908	34,492,585	373,414,234
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,830,515	3,064,033	(10,066,932)	2,718,856	546,472
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	13,587,455	3,124,432	16,711,887
Interfund transfers out	-	-	(1,866,983)	(14,844,904)	(16,711,887)
Total Other Financing Sources and Uses	-	-	11,720,472	(11,720,472)	-
Net Change in Fund Balances	4,830,515	3,064,033	1,653,540	(9,001,616)	546,472
Fund Balances, July 1, 2011	54,331,989	9,611,704	57,310,365	104,804,213	226,058,271
Fund Balances, June 30, 2012	\$ 59,162,504	\$ 12,675,737	\$ 58,963,905	\$ 95,802,597	\$ 226,604,743

FONTANA UNIFIED SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds

Amounts reported for governmental <i>activities</i> in the statement of activities are different because:	\$ 546,472
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:	
Expenditures for capital outlay	11,684,960
Depreciation expense	<u>(20,356,125)</u>
Net:	(8,671,165)
In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as a revenue and as increases to capital assets at their fair market value on the date of donation. The fair market value of capital assets donated during the year was:	5,938,430
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were:	5,343,713
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The debt issue costs amortized for the period were:	(486,847)
In governmental funds, if debt is issued at a premium or at a discount, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was:	3,150,008
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest earned less accreted interest paid during the year was:	(3,017,070)
In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	(744,276)
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:	(269,001)
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time. This year, such liabilities decreased by:	4,000,612
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statements of activities costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was:	(4,036,726)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:	<u>(2,771,384)</u>
Change in net assets of governmental activities	<u><u>\$ (1,017,234)</u></u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Proprietary Fund
June 30, 2012

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 9,565,090
Accounts receivable	16,290
Due from other funds	<u>33,409</u>
Total assets	<u>9,614,789</u>
LIABILITIES	
Estimated liability for open claims and IBNRs	4,098,686
Accounts payable	205,247
Due to other funds	<u>56,991</u>
Total liabilities	<u>4,360,924</u>
NET ASSETS	
Restricted	<u>5,253,865</u>
Total net assets	<u><u>\$ 5,253,865</u></u>

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Fund
For the Fiscal Year Ended June 30, 2012*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 207,528
Other local revenues	<u>81,312</u>
Total operating revenues	<u>288,840</u>
OPERATING EXPENSES	
Payments for personnel costs	253,604
Payments for materials and supplies	4,238
Payments for IBNR, claims and other operating expenditures	<u>2,853,220</u>
Total operating expenses	<u>3,111,062</u>
OPERATING INCOME (LOSS)	(2,822,222)
NON-OPERATING REVENUES	
Interest income	<u>50,838</u>
Change in net assets	(2,771,384)
Net assets, July 1, 2011	<u>8,025,249</u>
Net assets, June 30, 2012	<u><u>\$ 5,253,865</u></u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Self-insurance premiums	\$ 207,528
Other operating transfers	166,797
Cash received from other sources	84,719
Cash paid for operating expenses	<u>(1,901,674)</u>
Net cash used by operating activities	<u>(1,442,630)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>60,343</u>
Net cash provided by investing activities	<u>60,343</u>
Net decrease in cash	(1,382,287)
Cash, July 1, 2011	<u>10,947,377</u>
Cash, June 30, 2012	<u>\$ 9,565,090</u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (2,822,222)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	3,407
Decrease in amounts due from other funds	166,797
Decrease in accounts payable and estimated claims liability	1,168,937
Increase in amounts due to other funds	<u>40,451</u>
Net cash used by operating activities	<u>\$ (1,442,630)</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2012

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,537,467	\$ 447	\$ 1,537,914
Investments	-	6,509,229	6,509,229
Accounts receivable	1,444	1	1,445
Miscellaneous	462	-	462
Inventories - supplies and materials	130,234	-	130,234
Prepaid expenses	3,317	-	3,317
Total assets	<u>\$ 1,672,924</u>	<u>6,509,677</u>	<u>8,182,601</u>
LIABILITIES			
Accounts payable	\$ 18,149	4,859,563	4,877,712
Due to student groups	1,654,775	-	1,654,775
Total liabilities	<u>\$ 1,672,924</u>	<u>4,859,563</u>	<u>6,532,487</u>
NET ASSETS			
Restricted		<u>1,650,114</u>	<u>1,650,114</u>
Total net assets		<u>\$ 1,650,114</u>	<u>\$ 1,650,114</u>

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FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Net Assets – Fiduciary Fund
For the Fiscal Year Ended June 30, 2012

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 382,380
Increase in fair value of investments	36,547
In-district contributions	4,728,000
Total Additions	<u>5,146,927</u>
DEDUCTIONS	
Operating expenditures	<u>4,955,958</u>
Total Deductions	<u>4,955,958</u>
Change in net assets	190,969
Net assets held in trust - July 1, 2011	<u>1,459,145</u>
Net assets held in trust - June 30, 2012	<u>\$ 1,650,114</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

Financing Authority

The Fontana Unified School District Public Financing Authority is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 1999. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated May 1, 2007.

Community Facilities Districts

The District has entered into various agreements with developers to establish Community Facilities Districts (CFDs). The purpose of the agreements is to provide for the collection of special taxes to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs.

Financial Presentation

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Financial Presentation (continued)

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

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

Manifestations of Oversight

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

Accountability of Fiscal Matters

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

Scope of Public Service

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

C. Basis of Presentation

Government-Wide Financial Statements

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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

Fund Financial Statements

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions

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

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

Deferred Revenue

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

Expenses/Expenditures

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Governmental Fund Type Definitions

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

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Major Governmental Funds

The District maintains the following major governmental funds:

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

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

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

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

Adult Education Fund: This fund is used to account for resources committed to adult education programs maintained by the District.

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

Deferred Maintenance Fund: This fund is used to account for resources committed to major repair or replacement of District property.

Capital Projects Funds:

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

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

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

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

Debt Service Fund:

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Proprietary Funds

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

Self-Insurance Fund: This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers' compensation program that is accounted for in a self-insurance service fund.

Fiduciary Funds

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

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

Retiree Benefit Fund: This fund is used to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments or both.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund and the Cafeteria Fund in the required supplementary information section.

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

G. Encumbrances

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash

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

2. Stores Inventories

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

3. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

4. Deferred Revenue

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

5. Compensated Absences

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences (continued)

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

6. Long-Term Obligations

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

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

7. Fund Balance Classifications

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. Fund Balance Classifications (continued)

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

8. Net Assets

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

I. Property Tax

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

J. Use of Estimates

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

K. New GASB Pronouncements

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

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

	Rating	Governmental Activities		Fiduciary Funds	
		Governmental Funds	Proprietary Fund		Total
Pooled Funds:					
Cash in County Treasury		\$ 125,081,001	\$ 9,415,090	\$ 134,496,091	\$ 447
Deposits:					
Cash on hand and in banks		-	-	-	1,537,467
Cash in revolving fund		86,131	150,000	236,131	-
Total Deposits		86,131	150,000	236,131	1,537,467
Total Cash		\$ 125,167,132	\$ 9,565,090	\$ 134,732,222	\$ 1,537,914
Investments:					
US Bank Money Market	A-1+	\$ 13,757,390	\$ -	\$ 13,757,390	\$ -
Benefit-Trust:	AA-/A-1+				
Fixed Income:					
Delaware Diversified Income Institutional					705,697
Legg Mason BW Global Opportunities Bd IS					288,854
Metropolitan West Total Return Bond I					717,302
Oppenheimer International Bond Y					306,135
Prudential Total Return Bond Z					711,449
Templeton Global Bond Adv Fund					615,857
Western Asset Core Plus Bond I					742,892
Equities:					
Black Rock Equity Dividend Institutional					292,192
Brandes Institutional International Equity I					199,335
Cohen & Steers Institutional Realty Shares					176,007
JHancock Classic Value I					292,152
Hartford Capital Appreciation Y					283,406
Hartford Midcap Y					131,770
Nuveen Tradewinds Value Opportunities I					129,210
Nuveen Tradewinds Global All-Cap I					137,121
Prudential Global Real Estate Z					78,925
Royce Global Value Invmt					233,770
Royce Special Equity Institutional					130,129
Thornburg Investment Income Builder					151,211
Thornburg International Value I					173,464
Various					12,351
Total Investments					\$ 6,509,229

Investment security ratings reported as of June 30, 2012 are defined by Standard and Poors.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

Pooled Funds

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

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

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account through December 31, 2012, and other cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2012, \$102,107 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

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

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2012***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2012 consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 13,757,390	\$ 13,757,390	\$ -
Benefit-Trust:			
Fixed Income:			
Delaware Diversified Income Institutional	705,697	705,697	-
Legg Mason BW Global Opportunities Bd IS	288,854	288,854	-
Metropolitan West Total Return Bond I	717,302	717,302	-
Oppenheimer International Bond Y	306,135	306,135	-
Prudential Total Return Bond Z	711,449	711,449	-
Templeton Global Bond Adv Fund	615,857	615,857	-
Western Asset Core Plus Bond I	742,892	742,892	-
Equities:			
Black Rock Equity Dividend Institutional	292,192	292,192	-
Brandes Institutional International Equity I	199,335	199,335	-
Cohen & Steers Institutional Realty Shares	176,007	176,007	-
JHancock Classic Value I	292,152	292,152	-
Hartford Capital Appreciation Y	283,406	283,406	-
Hartford Midcap Y	131,770	131,770	-
Nuveen Tradewinds Value Opportunities I	129,210	129,210	-
Nuveen Tradewinds Global All-Cap I	137,121	137,121	-
Prudential Global Real Estate Z	78,925	78,925	-
Royce Global Value Invmt	233,770	233,770	-
Royce Special Equity Institutional	130,129	130,129	-
Thornburg Investment Income Builder	151,211	151,211	-
Thornburg International Value I	173,464	173,464	-
Various	12,351	12,351	-
Total	\$ 20,266,619	\$ 20,266,619	\$ -

Investments - Credit Risk

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Concentration of Credit Risk

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

US Bank Money Market 67.9%

NOTE 3 – ACCOUNTS RECEIVABLE

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

	Governmental Funds				Totals	Proprietary Fund	Fiduciary Fund
	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds		Self Insurance Fund	Retiree Benefits Fund
Federal Government:							
Categorical aid programs	\$ 6,954,897	\$ 3,839,525	\$ -	\$ 544,546	\$ 11,338,968	\$ -	\$ -
State Government:							
Revenue limit	79,025,082	-	-	-	79,025,082	-	-
Lottery	3,089,708	-	-	-	3,089,708	-	-
Special education	7,050,623	-	-	-	7,050,623	-	-
Categorical aid programs	2,821,141	-	-	-	2,821,141	-	-
Other state resources	3,744,741	328,477	-	532,091	4,605,309	-	-
Local:							
Interest	28,982	11,391	72,156	49,110	161,639	16,290	1
Miscellaneous	4,419,601	8,240	-	-	4,427,841	-	-
Other local resources	666,150	-	-	63,757	729,907	-	-
Total	<u>\$ 107,800,925</u>	<u>\$ 4,187,633</u>	<u>\$ 72,156</u>	<u>\$ 1,189,504</u>	<u>\$ 113,250,218</u>	<u>\$ 16,290</u>	<u>\$ 1</u>

NOTE 4 - INTERFUND TRANSACTIONS

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

A. Due From/Due To Other Funds

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS (continued)

	Due From Other Funds					Total
	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 32,271	\$ -	\$ 46,781,025	\$ 32,084	\$ 46,845,380
Cafeteria Fund	1,166,325	-	-	2	533	1,166,860
Non-Major Governmental Funds	1,088,899	2,584	1,000,001	9	792	2,092,285
Proprietary Fund	55,465	101	-	1,425	-	56,991
Total	<u>\$ 2,310,689</u>	<u>\$ 34,956</u>	<u>\$ 1,000,001</u>	<u>\$ 46,782,461</u>	<u>\$ 33,409</u>	<u>\$ 50,161,516</u>
General Fund due to Adult Education Fund for indirect costs						1
General Fund due to Child Development Fund for PERS reduction charge						60
General Fund due to Child Development Fund to correct a STRS Stipend payment						10
General Fund due to Child Development Fund to clear accounts payable						4
General Fund due to Child Development Fund for mapping errors						6
General Fund due to Cafeteria Fund for catering charges						7,449
General Fund due to Cafeteria Fund for Breakfast Aides						24,822
General Fund due to Capital Facilities Fund for interest owed						1,297
General Fund due to County School Facilities Fund for interest owed						22,474
General Fund due to Special Reserve Fund for Capital Outlay Projects for interest owed						17,144
General Fund due to Special Reserve Fund for Capital Outlay Projects for South West Industrial Park taxes						190,637
General Fund due to Special Reserve Fund for Capital Outlay Projects for South Corridor pass through						102,176
General Fund due to Special Reserve Fund for Capital Outlay Projects for North Fontana pass through						175,011
General Fund due to Special Reserve Fund for Capital Outlay Projects for real to merged pass through						9,419
General Fund due to Special Reserve Fund for Capital Outlay Projects for real to industrial pass through						4,912
General Fund due to Special Reserve Fund for Capital Outlay Projects for South West Industrial Park taxes						158,778
General Fund due to Special Reserve Fund for Capital Outlay Projects for South Corridor pass through						93,911
General Fund due to Capital Project Fund for Blended Component Units for interest owed						5,187
General Fund due to Self-Insurance Fund for workers compensation suspense transfer						32,084
Adult Education Fund due to General Fund for print services						1,645
Adult Education Fund due to General Fund for indirect costs						15,920
Adult Education Fund due to General Fund for year-end adjustment						1,062
Adult Education Fund due to General Fund for PERS reduction						625
Adult Education Fund due to General Fund for fuel charges						323
Adult Education Fund due to General Fund for suspense transfers						7,757
Adult Education Fund due to Self-Insurance Fund for workers compensation suspense transfer						74
Child Development Fund due to General Fund for PERS reduction charge						30
Child Development Fund due to General Fund for K-12 Structure						9
Child Development Fund due to General Fund to clear accounts payable						11
Child Development Fund due to General Fund for mapping errors						4
Child Development Fund due to General Fund for closing entries- suspense transfers						157,019
Child Development Fund due to General Fund for PERS reduction						17,247
Child Development Fund due to General Fund for print services						3,105
Child Development Fund due to General Fund for indirect costs						116,931
Child Development Fund due to Adult Education Fund for print services						8
Child Development Fund due to Cafeteria Fund for catering						2,584
Child Development Fund due to Self-Insurance Fund for workers compensation suspense transfer						718
Cafeteria Fund due to General Fund for print services						1,652
Cafeteria Fund due to General Fund for indirect costs						799,859
Cafeteria Fund due to General Fund for PERS reduction						71,429
Cafeteria Fund due to General Fund for fuel charges						616
Cafeteria Fund due to General Fund for closing entries- suspense transfers						149,833
Cafeteria Fund due to General Fund for K-12 structure						12
Cafeteria Fund due to General Fund for suspense transfers						142,924
Cafeteria Fund due to Child Development Fund for print services						2
Capital Facilities Fund due to General Fund for developer fees						60,167
Capital Facilities Fund due to General Fund for interfund loan repayment						3,000,000
General Fund due to County School Facilities Fund for interfund loan repayment						17,000,000
County School Facilities Fund due to Building Fund to correct an expense charged to the incorrect fund						1,000,000
Special Reserve Fund for Capital Outlay Projects due to General Fund for North Fontana pass through						707,043
General Fund due to Special Reserve Fund for Capital Outlay Projects for interfund loan repayment						14,000,000
General Fund due to Capital Project Fund For Blended Component Units for interfund loan repayment						12,000,000
Debt Service Fund due to Building Fund for bond anticipation note interest						1
Self-Insurance Fund due to General Fund for temporary disability						55,465
Self-Insurance Fund due to Child Development Fund for temporary disability						1,425
Self-Insurance Fund due to Cafeteria Special Revenue Fund for temporary disability						101
Cafeteria Fund due to Self-Insurance Fund for workers compensation suspense transfer						533
						<u>\$ 50,161,516</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 2011-12 fiscal year were as follows:

	Interfund Transfers In		Total
	Building Fund	Non-Major Governmental Funds	
Building Fund	\$ -	\$ 1,866,983	\$ 1,866,983
Other Governmental Funds	13,587,455	1,257,449	14,844,904
	<u>\$ 13,587,455</u>	<u>\$ 3,124,432</u>	<u>\$ 16,711,887</u>

Building Fund to Capital Project Fund for Blended Component Units for modernization expenses	\$ 1,866,983
County School Facilities Fund to Building Fund for payback of funds borrowed for modernization projects	11,944,192
County School Facilities Fund to Special Reserve Fund for Capital Outlay Projects to close out the account	457,169
Capital Project Fund for Blended Components Units to Building Fund for the transfer of expenses for the new building at FMS	1,643,263
Special Reserve Fund for Capital Outlay Projects to Special Reserve fund for Capital outlay projects to close out	800,280
	<u>\$ 16,711,887</u>

NOTE 5 - FUND BALANCES

Minimum Fund Balance Policy

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Education.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Education. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Education. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Education delegates authority to assign fund balance for a specific purpose to the Associate Superintendent, Business Services of the District with notification at the next scheduled Board Meeting to the Board of Education.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The District currently adheres to the state mandated minimal level of fund balance as outlined in Title V of the California Code of Regulations Section 15443, Reserve.

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

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 5 – FUND BALANCES (continued)

	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 75,000	\$ 11,131	\$ -	\$ -	\$ 86,131
Inventories	66,605	93,358	-	-	159,963
Prepaid expenditures	111,528	-	-	-	111,528
Total Nonspendable	253,133	104,489	-	-	357,622
Restricted:					
Categorical programs	13,926,281	12,571,248	-	345,365	26,842,894
Capital projects	-	-	58,963,905	74,548,748	133,512,653
Debt service	-	-	-	17,294,991	17,294,991
Total Restricted	13,926,281	12,571,248	58,963,905	92,189,104	177,650,538
Committed:					
Adult education program	-	-	-	281,282	281,282
Deferred maintenance program	-	-	-	3,332,211	3,332,211
Other commitments	27,886,992	-	-	-	27,886,992
Total Committed	27,886,992	-	-	3,613,493	31,500,485
Assigned:					
Other assignments	4,698,832	-	-	-	4,698,832
Total Assigned	4,698,832	-	-	-	4,698,832
Unassigned:					
Reserve for economic uncertainties	12,397,266	-	-	-	12,397,266
Total Unassigned	12,397,266	-	-	-	12,397,266
Total	\$ 59,162,504	\$ 12,675,737	\$ 58,963,905	\$ 95,802,597	\$ 226,604,743

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012
Capital assets not being depreciated:				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	39,485,306	604,717	27,724,791	12,365,232
Total capital assets not being depreciated	98,362,608	604,717	27,724,791	71,242,534
Capital assets being depreciated:				
Improvement of sites	59,667,344	6,505,455	-	66,172,799
Buildings	587,015,559	35,187,646	-	622,203,205
Equipment	31,936,879	3,050,363	57,259	34,929,983
Total capital assets being depreciated	678,619,782	44,743,464	57,259	723,305,987
Accumulated depreciation for:				
Improvement of sites	(22,015,223)	(3,551,993)	-	(25,567,216)
Buildings	(132,366,231)	(14,783,857)	-	(147,150,088)
Equipment	(24,577,840)	(2,020,275)	(57,259)	(26,540,856)
Total accumulated depreciation	(178,959,294)	(20,356,125)	(57,259)	(199,258,160)
Total capital assets being depreciated, net	499,660,488	24,387,339	-	524,047,827
Governmental activity capital assets, net	\$ 598,023,096	\$ 24,992,056	\$ 27,724,791	\$ 595,290,361

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2011	Additions	Deductions	Balance, June 30, 2012	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 190,717,408	\$ -	\$ 3,931,085	\$ 186,786,323	\$ 4,441,262
Accreted interest component	14,834,863	2,246,610	2,703,915	14,377,558	2,868,738
Unamortized issuance premium	11,689,770	-	583,959	11,105,811	583,959
Total - Bonds	<u>217,242,041</u>	<u>2,246,610</u>	<u>7,218,959</u>	<u>212,269,692</u>	<u>7,893,959</u>
Bond Anticipation Notes:					
Principal repayments	94,997,120	-	-	94,997,120	94,997,120
Accreted interest component	4,234,070	3,474,375	-	7,708,445	7,708,445
Unamortized issuance premium	3,811,476	-	2,540,984	1,270,492	1,270,492
Total - BANs	<u>103,042,666</u>	<u>3,474,375</u>	<u>2,540,984</u>	<u>103,976,057</u>	<u>103,976,057</u>
Certificates of Participation:					
Principal repayments	46,075,000	-	1,165,000	44,910,000	1,235,000
Unamortized issuance premium	601,561	-	25,065	576,496	25,065
Total - Certificates of Participation	<u>46,676,561</u>	<u>-</u>	<u>1,190,065</u>	<u>45,486,496</u>	<u>1,260,065</u>
Qualified Zone Academy Bond	3,491,592	-	247,628	3,243,964	247,627
Compensated Absences	1,499,051	269,001	-	1,768,052	-
Supplemental Early Retirement	10,895,098	-	4,000,612	6,894,486	4,000,612
Other Postemployment Benefits	22,537,538	4,036,726	-	26,574,264	-
Totals	<u>\$ 405,384,547</u>	<u>\$ 10,026,712</u>	<u>\$ 15,198,248</u>	<u>\$ 400,213,011</u>	<u>\$ 117,378,320</u>

A. General Obligation Bonds

Election of 2006

On June 6, 2006, an election was held where the registered voters in the District approved by a fifty-five percent majority the issuance and sale of \$275 million principal amount of general obligation bonds. The bonds are being issued to acquire, construct, renovate and equip certain District facilities. As of June 30, 2012, there are two bond issuances outstanding from this authorization: the Series A and Series B Bonds. The Bonds are general obligations of the District, and the County is empowered and obligated to levy ad valorem taxes upon all property within the District subject to taxation for the payment of interest on and principal of the Bonds when due.

Prior Years' Refunding Bonds

In prior years the District has issued refunding bonds for the purposes of defeasing previously issued bonds. The previously issued refunding bonds are the 1992 Refunding Bonds, the 1997 Refunding Bonds, Series A, the 2004 Refunding Bonds, and the 2009 Refunding Bonds. The net proceeds of these bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. As of June 30, 2012, the principal balance outstanding on the previously defeased debt was fully paid.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2011	Additions	Deductions	Balance, June 30, 2012
1992R	8/27/1992	2018	3.0%-5.65%	\$ 23,668,126	\$ 1,964,808	\$ -	538,545	\$ 1,426,263
1997A	6/18/1997	2018	4.40%-5.95%	18,670,227	5,471,691	-	837,540	4,634,151
2004R	6/30/2004	2020	3.0%-5.25%	18,930,000	14,170,000	-	1,095,000	13,075,000
2006A	8/23/2006	2031	4.0%-5.25%	90,000,000	82,665,000	-	-	82,665,000
2006B	3/26/2008	2033	3.0% - 5.25%	70,585,909	70,485,909	-	465,000	70,020,909
2009R	2/24/2009	2022	3.0% - 5.25%	18,110,000	15,960,000	-	995,000	14,965,000
					<u>\$ 190,717,408</u>	<u>\$ -</u>	<u>\$ 3,931,085</u>	<u>\$ 186,786,323</u>
				Accreted Interest				
				1992A	4,475,296	\$ 418,777	\$ 1,341,455	\$ 3,552,618
				1997R	8,189,175	954,761	1,362,460	7,781,476
				2006B	2,170,392	873,072	-	3,043,464
					<u>\$ 14,834,863</u>	<u>\$ 2,246,610</u>	<u>\$ 2,703,915</u>	<u>\$ 14,377,558</u>

The annual requirements to amortize general obligation bonds outstanding at June 30, 2012 is as follows:

Fiscal Year	Principal	Interest	Total
2012-13	\$ 4,441,262	\$ 11,593,845	\$ 16,035,107
2013-14	4,879,566	11,561,090	16,440,656
2014-15	5,457,517	11,574,752	17,032,269
2015-16	5,987,184	10,011,448	15,998,632
2016-17	6,716,175	9,888,594	16,604,769
2017-22	41,308,710	38,485,896	79,794,606
2022-27	50,750,000	23,077,688	73,827,688
2027-32	63,784,554	30,130,633	93,915,187
2032-34	3,461,355	19,038,645	22,500,000
Total	<u>\$ 186,786,323</u>	<u>\$ 165,362,591</u>	<u>\$ 352,148,914</u>

B. Bond Anticipation Notes

On January 7, 2010, the District issued 2009 General Obligation Bond Anticipation Notes in the amount of \$94,997,120. The notes were issued to finance the acquisition, construction, renovation and equipping of certain District facilities in anticipation of proceeds from general obligation bonds to be issued by the District. The issue consisted of: a) Current Interest Notes of \$71,000,000 with an interest rate of 4.0% and fully maturing on December 1, 2012 and b) Capital Appreciation Notes of \$23,997,120 with an accretion rate of 11.95% and fully maturing on December 1, 2012. At June 30, 2012, the outstanding principal was \$94,997,120.

The annual requirements to amortize general obligation bond anticipation notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2012-13	<u>\$ 94,997,120</u>	<u>\$ 12,442,880</u>	<u>\$ 107,440,000</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2012***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****C. Certificates of Participation**

On April 25, 2007 the District issued \$49,910,000 in certificates of participation through the Fontana Unified School District Public Financing Authority for the purpose of providing funds for the construction and improvement of certain school facilities. Payments will be financed through CFD resources.

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2012-13	\$ 1,235,000	\$ 2,015,763	\$ 3,250,763
2013-14	1,295,000	1,970,678	3,265,678
2014-15	1,365,000	1,922,466	3,287,466
2015-16	1,435,000	1,870,819	3,305,819
2016-17	1,505,000	1,811,931	3,316,931
2017-22	9,035,000	7,824,875	16,859,875
2022-27	11,325,000	5,319,362	16,644,362
2027-32	9,065,000	2,824,087	11,889,087
2032-37	8,650,000	1,010,475	9,660,475
Total	<u>\$ 44,910,000</u>	<u>\$ 26,570,456</u>	<u>\$ 71,480,456</u>

D. Qualified Zone Academy Bond

On April 1, 2005, the District entered into a site lease agreement with the California School Boards Association Finance Corporation. The purpose of the agreement is to provide financing for the cost of purchasing equipment and certain improvements to property. The financing for the improvements is provided by the issuance of Qualified Zone Academy Bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code. Lease payments will be required as follows:

Fiscal Year	Scheduled Deposit	Accumulated Interest	Total
2012-13	\$ 247,627	\$ 57,384	\$ 305,011
2013-14	247,628	66,591	314,219
2014-15	247,627	76,079	323,706
2015-16	247,628	85,877	333,505
2016-17	247,627	95,956	343,583
2017-21	990,512	633,428	1,623,940
Total	<u>\$ 2,228,649</u>	<u>\$ 1,015,315</u>	<u>\$ 3,243,964</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Supplemental Early Retirement Programs

SERP – 2008

In 2008, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2008. One hundred fifty-one employees, who met the eligibility requirements, elected early retirement. Five payments of \$2,027,164 are being paid over a five year period starting July 2008. The accumulated future liability for the District at June 30, 2012 amounts to \$2,027,164.

SERP – 2009

In 2009, the District also agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2009. Ninety employees, who met the eligibility requirements, elected early retirement. Five payments of \$1,053,022 are being paid over a five year period starting July 2009. The accumulated future liability for the District at June 30, 2012 amounts to \$2,106,044.

SERP – 2010(1)

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. Seventy-one employees, who met the eligibility requirements, elected early retirement. Five payments of \$892,619 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2012 amounts to \$2,677,857.

SERP – 2010(2)

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. One employee, who met the eligibility requirements, elected early retirement. Five payments of \$27,807 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2012 amounts to \$83,421.

A summary of future payments on outstanding early retirement incentives is presented below:

Fiscal Year	Total
2012-13	\$ 4,000,612
2013-14	1,973,448
2014-15	<u>920,426</u>
Total	<u>\$ 6,894,486</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 8 - JOINT VENTURES

The Fontana Unified School District participates in joint ventures under joint powers agreements with the Midwest Claims Employees Workers' Comp Excess, Southern California ReLiEF and Riverside Employee/Employer Program (REEP) for benefits. The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage as well as, health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed unaudited financial information for the year ended June 30, 2012 for REEP is as follows:

	REEP	ReLiEF
Assets	\$ 30,971,338	\$ 49,517,919
Liabilities	11,498,338	21,283,297
Net Assets	<u>\$ 19,473,000</u>	<u>\$ 28,234,622</u>
Revenues	\$ 195,673,057	\$ 26,142,664
Expenses	190,226,824	20,078,671
Operating Income	5,446,233	6,063,993
Non-Operating Income	-	686,116
Change in Net Assets	<u>\$ 5,446,233</u>	<u>\$ 6,750,109</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Construction Commitments

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of approximately \$0.7 million to be paid from a combination of State and local funds.

C. Litigation

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 10 – RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

For fiscal year 2011-12, the District was self-funded for workers compensation, with excess coverage provided by the Midwest Consulting Company.

Employee Medical Benefits

The District has contracted with Kaiser, Express Scripts, Blue Shield HMO, and Blue Shield POS to provide employee medical, prescription and surgical benefits, Delta Dental, MetLife Dental and Safe Guard for dental benefits, and MES Vision for vision benefits.

Claims Liability

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

Unpaid Claims Liabilities

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

	Workers' Compensation
Liability Balance, July 1, 2010	\$ 3,047,217
Claims and changes in estimates	1,364,439
Claims payments	<u>(1,424,713)</u>
Liability Balance, June 30, 2011	2,986,943
Claims and changes in estimates	3,964,963
Claims payments	<u>(2,853,220)</u>
Liability Balance, June 30, 2012	<u>\$ 4,098,686</u>
Assets available to pay claims at June 30, 2012	<u>\$ 9,614,789</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and employees not covered by STRS or PERS are covered under the ING/Northern Annuity APPLE Plan.

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

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

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 5,459,375	100%
2010-11	\$ 5,422,073	100%
2009-10	\$ 5,343,350	100%

State Teachers' Retirement System (STRS)

Plan Description

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

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

	Contribution	Percent of Required Contribution
2011-12	\$ 12,688,220	100%
2010-11	\$ 12,314,551	100%
2009-10	\$ 12,818,113	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$6.6 million to STRS (4.267% of salaries subject to STRS in 2011-12).

Alternative Retirement Program (APPLE)

Plan Description

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers seasonal and temporary employees and employees not covered by another retirement system, pursuant to the requirements of Internal Revenue Code Section 3121(b)(7)(f). The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by the ARP Board of Education.

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$233,073 during 2011-12. The total amount of covered compensation was \$3,107,634. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Fontana Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefit Fund. The District implemented Governmental Accounting Standards Board Statement #45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

A. Summary of Significant Accounting Policies

Basis of Accounting

The Retiree Benefit Fund’s financial statements are prepared using the accrual basis of accounting. Fontana Unified School District has a retirement board of authority to oversee the Retiree Benefit Fund. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. 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 District also has an investment of \$6,509,229 in Blue Ridge Trust Bank as described in Note 2.

B. Plan Descriptions and Contribution Information

Membership of the plan consisted of the following at April 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	485
Active plan members	3,665
Total	<u>4,150</u>

Number of participating employers	One
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Plan Description

Following is a description of the current retiree plan:

	<u>Certificated</u>	<u>Classified and Police</u>	<u>Management</u>
Benefit types provided	Medical, dental and vision*	Medical, dental and vision*	Medical, dental and vision*
Duration of benefits	6 years*	6 years*	6 years*
Required service	15 years*	15 years*	15 years*
Minimum age	50	50	50
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	None	None	None

* Retirees may elect 8 years of medical only coverage. Employees with at least 35 years of service receive lifetime coverage. Married employees may elect to receive benefits consecutively subject to certain restrictions. Certain retirees may defer receipt of retiree benefits subject to certain restrictions.

Contributions

Retired plan members and beneficiaries currently receiving benefits are not required to contribute toward the cost of health insurance premiums. The District contributes 100% of the current premium cost, which amounted to approximately \$4.7 million in 2011-12.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Funded Status and Funding Progress – OPEB Plans

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

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
February 17, 2006	\$ 1	\$ 82,646,793	\$ 82,646,792	0.0%
November 20, 2008	\$ 71,677	\$ 74,858,593	\$ 74,786,916	0.1%
April 1, 2010	\$ 1,262,983	\$ 95,413,658	\$ 94,150,675	1.3%

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

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	April 1, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	26 years
Asset Valuation	Not aware of any "plan assets" on the valuation date
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rate	4.0%
Inflation	3.0%

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2012***NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)****D. Annual OPEB Cost and Net OPEB Obligation**

The following table shows the elements of the District's annual OPEB cost for the year, the amount actually paid on behalf of the plan and changes in the District's net OPEB liability to the plan for the year ended June 30, 2012:

Annual required contribution (ARC)	\$ 8,759,628
Interest on net OPEB obligation	1,126,877
Adjustment to ARC	<u>(998,257)</u>
Annual OPEB cost	<u>8,888,248</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	(4,728,000)
Pay-as-you-go costs	<u>(123,522)</u>
Total contributions made	<u>(4,851,522)</u>
Increase in net OPEB liability	4,036,726
Net OPEB liability - July 1, 2011	<u>22,537,538</u>
Net OPEB liability - June 30, 2012	<u>\$ 26,574,264</u>

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

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Liability
2010	\$ 9,446,880	52%	\$ 18,293,920
2011	\$ 8,864,030	52%	\$ 22,537,538
2012	\$ 8,888,248	55%	\$ 26,574,264

NOTE 13 - SUBSEQUENT EVENTS**A. General Obligation Bonds**

On October 25, 2012, the District authorized \$47,259,440 in Election of 2006, Series C bonds in order to pay certain outstanding bond anticipation notes of the District and to pay costs of issuance.

On October 25, 2012, the District authorized \$78,115,000 in refunding bonds to refund a portion of the outstanding General Obligation Bonds the District originally issued for authorized school purposes.

B. Tax Revenue Anticipation Notes

The District issued \$29,830,000 of Tax Revenue Anticipation Notes dated July 2, 2012 through the California School Cash Reserve Program Authority. The notes Mature on February 1, 2013 and have a stated rate of 2% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements are that certain amounts be deposited in a special fund. The monies are required to remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 14 – EFFECT OF STATE OF CALIFORNIA BUDGET CRISIS

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

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

Required Supplementary Information

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

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 207,786,032	\$ 206,843,671	\$ 206,818,200	\$ (25,471)
Federal	25,734,040	41,298,457	34,334,592	(6,963,865)
Other State	66,198,986	69,897,865	69,878,488	(19,377)
Other Local	1,703,919	3,444,183	3,730,881	286,698
Total Revenues	<u>301,422,977</u>	<u>321,484,176</u>	<u>314,762,161</u>	<u>(6,722,015)</u>
Expenditures				
Certificated Salaries	146,225,086	154,373,099	153,373,600	999,499
Classified Salaries	41,624,887	45,118,863	43,544,104	1,574,759
Employee Benefits	71,520,601	73,474,010	71,786,192	1,687,818
Books and Supplies	8,655,905	27,574,774	13,243,250	14,331,524
Services and Other Operating Expenditures	27,414,884	34,031,831	28,404,731	5,627,100
Capital Outlay	915,239	3,322,889	709,084	2,613,805
Other Outgo	(1,183,413)	(1,284,922)	(1,129,315)	(155,607)
Total Expenditures	<u>295,173,189</u>	<u>336,610,544</u>	<u>309,931,646</u>	<u>26,678,898</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,249,788	(15,126,368)	4,830,515	19,956,883
Fund Balances, July 1, 2011	60,581,777	76,187,992	54,331,989	(21,856,003)
Fund Balances, June 30, 2012	<u>\$ 66,831,565</u>	<u>\$ 61,061,624</u>	<u>\$ 59,162,504</u>	<u>\$ (1,899,120)</u>

FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Federal	\$ 15,121,880	\$ 15,121,880	\$ 17,870,411	\$ 2,748,531
Other State	1,292,499	1,295,061	1,426,836	131,775
Other Local	2,229,537	2,229,537	2,407,881	178,344
Total Revenues	18,643,916	18,646,478	21,705,128	3,058,650
Expenditures				
Classified Salaries	5,612,906	5,882,045	5,553,829	328,216
Employee Benefits	3,496,165	3,048,754	2,906,695	142,059
Books and Supplies	7,948,455	8,647,169	9,213,943	(566,774)
Services and Other Operating Expenditures	282,470	202,430	166,769	35,661
Capital Outlay	450,000	12,160	-	12,160
Other Outgo	853,920	853,920	799,859	54,061
Total Expenditures	18,643,916	18,646,478	18,641,095	5,383
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	3,064,033	3,064,033
Fund Balances, July 1, 2011	9,871,352	9,633,174	9,611,704	(21,470)
Fund Balances, June 30, 2012	\$ 9,871,352	\$ 9,633,174	\$ 12,675,737	\$ 3,042,563

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

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 17, 2006	\$ 1	\$ 82,646,793	\$ 82,646,792	0.0%	\$ 189,979,974	44%
November 20, 2008	\$ 71,677	\$ 74,858,593	\$ 74,786,916	0.1%	\$ 206,680,579	36%
April 1, 2010	\$ 1,262,983	\$ 95,413,658	\$ 94,150,675	1.3%	\$ 195,421,055	48%

FONTANA UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Funding Progress

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2012, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code:

Appropriations Category	General Fund	Cafeteria Fund
Books and Supplies	\$ -	\$ 566,774
Other Outgo	155,607	-

Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2012

The Fontana Unified School District was established in 1956. The District boundaries encompass an area of approximately 55 square miles. The District boundaries include the city of Fontana and portions of the cities of Rialto and Rancho Cucamonga, as well as unincorporated areas of the County of San Bernardino. There were no changes to the District's boundaries during the year. The District currently operates 29 elementary schools, seven intermediate schools, five high schools, two continuation high schools, and an adult education and child development program.

GOVERNING BOARD

Member	Office	Term Expires
BarBara L. Chavez	President	2012
Gus Hawthorn	Vice-President	2014
Kathy Binks	Member	2012
Leticia Garcia	Member	2014
Sophia Green	Member	2014

DISTRICT ADMINISTRATORS

Cali L. Olsen-Binks,
Superintendent

Alejandro Alvarez,
Associate Superintendent, Business Services

Oscar Dueñas,
Associate Superintendent, Instructional Services

William Wu,
Assistant Superintendent, Human Resources

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

	Second Period Report (Certificate No. 4B111F0A)	Annual Report (Certificate No. 131D0336)
Elementary:		
Kindergarten	2,951	2,955
Grades 1 through 3	8,829	8,818
Grades 4 through 6	8,323	8,318
Grades 7 and 8	5,644	5,635
Home and hospital	6	8
Special education	998	1,000
Extended year program	12	12
	<hr/>	<hr/>
Total Elementary	26,763	26,746
	<hr/>	<hr/>
Secondary:		
Grades 9 through 12, regular classes	11,074	10,985
Continuation education	653	632
Home and hospital	24	23
Special education	579	574
Extended year program	14	14
	<hr/>	<hr/>
Total Secondary	12,344	12,228
	<hr/>	<hr/>
Total Average Daily Attendance	<u>39,107</u>	<u>38,974</u>

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

Grade Level	1982-83 Minutes		1986-87 Minutes		2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	36,000	33,600	36,000	33,600	36,000	180	Complied
Grade 1	46,130	43,055	50,400	47,040	53,184	180	Complied
Grade 2	46,130	43,055	50,400	47,040	53,184	180	Complied
Grade 3	46,130	43,055	50,400	47,040	53,184	180	Complied
Grade 4	47,800	44,613	54,000	50,400	54,564	180	Complied
Grade 5	47,800	44,613	54,000	50,400	54,564	180	Complied
Grade 6	47,800	44,613	54,000	50,400	54,564	180	Complied
Grade 7	57,390	53,564	54,000	50,400	58,344	180	Complied
Grade 8	57,390	53,564	54,000	50,400	58,344	180	Complied
Grade 9	57,390	53,564	64,800	60,480	66,204	180	Complied
Grade 10	57,390	53,564	64,800	60,480	66,204	180	Complied
Grade 11	57,390	53,564	64,800	60,480	66,204	180	Complied
Grade 12	57,390	53,564	64,800	60,480	66,204	180	Complied

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

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

General Fund	(Budget) 2013 ³	2012	2011	2010
Revenues and other financing sources	\$ 285,907,598	\$ 314,762,161	\$ 317,960,437	\$ 295,010,817
Expenditures	310,806,875	309,931,646	298,434,724	312,705,242
Other uses and transfers out	-	-	2,102,407	1,192,165
Total outgo	310,806,875	309,931,646	300,537,131	313,897,407
Change in fund balance (deficit)	(24,899,277)	4,830,515	17,423,306	(18,886,590)
Ending fund balance	\$ 34,263,227	\$ 59,162,504	\$ 54,331,989	\$ 36,071,325
Available reserves ¹	\$ 10,762,421	\$ 12,397,266	\$ 9,007,559	\$ 23,245,810
Available reserves as a percentage of total outgo	3.5%	4.0%	3.0%	7.4%
Total long-term debt	\$ 284,956,245	\$ 400,213,011	\$ 405,384,547	\$ 410,565,614
Average daily attendance at P-2 ²	39,095	39,107	39,268	38,982

The General Fund balance has increased by \$23,091,179 over the past two years. The fiscal year 2012-13 adopted budget projects a decrease of \$24,899,277. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit during the 2012-13 fiscal year. Long-term debt has decreased by \$10,352,603 over the past two years.

Average daily attendance has increased by 125 over the past two years. A decrease of 12 ADA is anticipated during fiscal year 2012-13.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Excludes Adult Education ADA.

³ Revised Final Budget September, 2012.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Program - Basic	10.553	13525	\$ 75,907	
School Breakfast Program - Especially Needy	10.553	13526	2,817,709	
National School Lunch Program	10.555	13523	13,802,677	
USDA Donated Foods	10.555	N/A	1,174,118	
Total Child Nutrition Cluster				\$ 17,870,411
Total U.S. Department of Agriculture				17,870,411
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Adult Basic Education (ABE):				
Adult Education Cluster				
Adult Secondary Education	84.002	13978	150,073	
Adult Basic Education & ESL	84.002A	14508	140,105	
Total Adult Education Cluster				290,178
No Child Left Behind (NCLB):				
Title I, Part A Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	15,254,854	
Title I, Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems	84.010	14955	442,484	
ARRA Title I, Part A, Basic Grants Low Income and Neglected	84.389	15005	11,472	
Total Title I, Part A Cluster				15,708,810
School Improvement Grant Cluster				
Title I, School Improvement Grant (SIG)	84.377	15127	436,701	
ARRA Title I, School Improvement Grant (SIG)	84.389	15004	1,557,346	
Total School Improvement Grant Cluster				1,994,047
Title I, Part D, Local Delinquent Programs	84.010	14357		13,798
Title X, McKinney-Vento Homeless Children Assistance	84.196	14332		25,793
Title I, Part B, Reading First Program	84.357	14787		980,061
Title II, Part A, Teacher Quality Local	84.367	14341		1,875,242
Education Technology Grants				
Title II, Part D, Enhancing Education Through Technology	84.318	14368	27,934	
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	9,496	
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants (EETT)	84.386	15126	151,796	
Total Education Technology Grants Cluster				189,226
English Language Acquisition Grants Cluster				
Title III, Immigrant Education Program	84.365	15146	63,600	
Title III, Limited English Proficiency	84.365	14346	2,051,943	
Total English Language Acquisition Grants Cluster				2,115,543
Title IV, Part A, Safe & Drug Free Schools and Communities	84.186	14347		127,396
Title IV, Part B, 21st Century Community Learning Centers Program	82.287	14349		342,868
Education Jobs Fund	84.410	25152		950,011
Carl Perkins Act - Secondary	84.048	14894		283,068
Advanced Placement Test Fee	84.330	14504		77,082
Safe & Supportive Schools, Programmatic Intervention	84.184	N/A		71,387
Smaller Learning Communities	84.287	N/A		195,929
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
Local Assistance Entitlement	84.027	13379	6,619,094	
ARRA, Local Assistance Entitlement	84.391	15003	2,077,154	
Preschool Local Entitlement, Part B	84.173A	13682	246,959	
Preschool Staff Development	84.173A	13431	1,000	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	3,816	
Sp Ed Preschool	84.173	13430	168,657	
Sp Ed Mental Health Allocation	84.027	14468	116,345	
Total Special Education Cluster				9,233,025
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		186,128
Total U.S. Department of Education				34,789,477
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care Development Fund Cluster				
Infant/Toddler Resource Contracts	93.575	13942	174,472	
Quality Improvement Activities	93.708	15159	28,188	
Total Child Care Development Fund Cluster				202,660
Head Start Cluster				
Head Start	93.600	10016	156,583	
Head Start ARRA	93.600	10016	254,580	
Total Head Start Cluster				411,163
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	398,454	
Medi-Cal Administrative Activities (MAA)	N/A	10060	388,712	
Total Medicaid Cluster				787,166
Total U.S. Department of Health & Human Services				1,400,989
Total Expenditures of Federal Awards				\$ 54,060,877

FONTANA UNIFIED SCHOOL DISTRICT

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

	<u>Capital Projects for Blended Component Units Fund</u>
June 30, 2012, annual financial and budget report fund balance	\$ 27,323,594
Adjustments and reclassifications:	
Increase (decrease) in total fund balances:	
To record trust activity	<u>(306)</u>
Net adjustments and reclassifications	<u>(306)</u>
June 30, 2012, audited financial statement fund balances	<u><u>\$ 27,323,288</u></u>

FONTANA UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code sections 46201.2(a) and 46201.3(a).

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

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Other Independent Auditors' Reports

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

Board of Education
Fontana Unified School District
Fontana, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of and for the year ended June 30, 2012, which collectively comprise Fontana Unified School District's basic financial statements and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

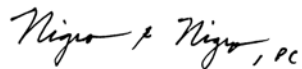
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-1.

We noted certain matters that we reported to management of Fontana Unified School District in a separate letter dated November 27, 2012.

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

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

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

November 27, 2012



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

Board of Education
Fontana Unified School District
Fontana, California

Compliance

We have audited Fontana 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 Fontana Unified School District's major federal programs for the year ended June 30, 2012. Fontana Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fontana Unified School District's management. Our responsibility is to express an opinion on Fontana Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fontana 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 Fontana Unified School District's compliance with those requirements.

In our opinion, Fontana Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-1.

Internal Control Over Compliance

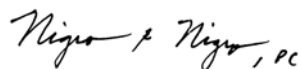
Management of Fontana Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fontana Unified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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Finding 2012-1. 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.

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

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



November 27, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Fontana Unified School District
Fontana, California

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

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

Table with 3 columns: Description, Procedures in Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, Early Retirement Incentive, Gann Limit Calculation, School Accountability Report Card, Public Hearing Requirement - Receipt of Funds, Juvenile Court Schools, Exclusion of Pupils - Pertussis Immunization, Class Size Reduction (General Requirements, Option One, Option Two, Districts with Only One School Serving K-3).

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

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

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

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

Nigro & Nigro, PC

November 27, 2012

Findings and Questioned Costs

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	
84.391	<u>Special Education (IDEA) Cluster</u>
84.377, 84.389	<u>School Improvement Grant Cluster</u>
10.553, 10.555	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,621,826</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

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

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

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2011-12.

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2012-1: Special Education IDEA Cluster (50000)

Program Identification: Federal Agency: U.S. Department of Education
Pass-Through Entity: California Department of Education
Cluster: Special Education, IDEA, Part B (CFDA No. 84.027)
Special Education, Preschool Local Entitlement (CFDA No. 84.173)
Special Education, ARRA, Local Assistance Entitlement (CFDA No. 84.391)

Criteria: OMB Circular A-87 requires that employees funded solely from a single federal program must sign a semi-annual certification stating that he or she worked exclusively in that program during the certification period. Whenever an employee works in more than one categorical program or cost objective, the distribution of the employee's salary must be supported by a Personnel Activity Report (PAR).

Condition: The District is using semi-annual certifications and PARs for employees working in IDEA in 2011-12; however, the form for one employee did not match the distribution of the employee's payroll. The semi-annual certification provided by the employee indicated that she worked 100% in Special Education. In fact, the employee only worked 20% of the time in Special Education, while 80% of the time was worked in the Medi-Cal Program.

Context: The salaries of certain aides, secretaries and administrators are "split-funded" between the federal program and non-federal funds. Certain aides are funded solely by the program.

Questioned Cost: The District charged \$14,581 in salary and benefits to Special Education for the year but according to time accounting records \$72,902 should have been charged. The remaining \$58,321 was charged to the Medi-Cal Program.

Effect: The allocation of salaries charged to the federal program is not supported by actual time records to support the costs. Although the services were provided, awarding agencies may seek reimbursement from the District for these unsupported charges and could withhold funds in the future if these provisions are not followed.

Cause: The District overlooked the required paperwork for the one employee.

Recommendation: The District must continue to implement semi-annual certifications and PARs for all employees working in *all* federal programs in the 2011-12 fiscal year. The district must also implement a process to ensure that employee's activities match the distribution of his or her payroll.

District Response: The Fiscal Services Department and the Instructional Services division will fully implement a procedure to monitor and ensure semiannual certifications and PARs for all employees working in all federal programs. The District will also implement a process to ensure that all employees' activities match the distribution of his or her payroll. The time accounting lead and Fiscal Services staff will provide staff development and technical assistance to departments on time accounting procedures and interpreting reading personnel reports available through District County systems.

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

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

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

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

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2011-1: After School Education and Safety Program</i>	<p>Districts are required to provide quarterly reports to the State for which attendance is reported for the After School Base Grant. In addition, the District should maintain written records that document pupil participation by tracing the reported numbers through any documentation used to summarize the numbers of students served to written data origination documentation.</p> <p>The District provided the auditors with supporting documentation for the data reported in the quarterly report to the State, but were unable to determine whether pupils attended the program for a minimum of 15 hours and five day a week or a minimum of nine hours and three days a week for elementary and middle schools respectively to accomplish program goals. In addition, the providers are not following the District's early release policy with regard to granting pupil attendance.</p>	40000	The District should develop controls to closely monitor the after school program's attendance submitted by the providers for accuracy. This includes reviewing the reviewing the sign-in/out sheets to ensure that the students are meeting the minimum weekly attendance requirement and verifying whether the providers are utilizing the District approved early release policy.	Implemented.
<i>Finding 2011-2: Attendance Rosters</i>	<p>School districts must record and maintain attendance rosters for all pupils and attendance must not be credited for more than the scheduled class time.</p> <p>The site attendance audit at South Tamarind Elementary School identified an instance where the substitute teacher rosters were not retained. The school site utilizes an electronic attendance accounting system, but substitute teachers are required to record attendance manually.</p>	10000	The District should ensure that the school site retain attendance documents at the school site or District Office and be available for audit at all times.	Implemented.

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

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 27, 2012, on the financial statements of Fontana Unified School District.

COMPENSATED ABSENCES

Observation: During our audit of the District we reviewed the collective bargaining unit agreement for classified staff and identified that the maximum carryover of vacation for these employees is 96 hours. After reviewing the schedule of compensated balances, we noted 220 employees that have accrued vacation exceeding this carryover limit.

Recommendation: The District should begin monitoring the balances and enforcing the carryover limitations in accordance with the collective bargaining agreement.

CAFETERIA FUND BALANCE

Observation: The ending fund balance in the Cafeteria Fund at June 30, 2012 was \$12,675,737. After considering the nonspendable portion attributable to revolving cash and inventory in the amount of \$104,489, the remaining restricted fund balance is \$12,571,248. This amount represents nearly 72% of the total expenditures of the fund. The Cafeteria Fund reserve should not exceed 3 months' worth of expenditures, which would only be \$4,366,744. The only exception would be in the case of the establishment of a reserve pursuant to Education Code Section 38102.

Recommendation: The District should work closely with the management of the child nutrition program to identify means to begin spending down the fund balance to a more acceptable level. Alternatively, the District may establish a reserve for the purchase, lease, maintenance, or replacement of cafeteria equipment.

To the Board of Education
Fontana Unified School District

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our testing of cash receipts at three sites, we noted that deposits were not always made in a timely manner.

Recommendation: At a minimum, deposits to the ASB bank account should be made weekly, though within two to three school days is preferable. This will reduce the chance of funds being lost or stolen. Money should never be left at a school site over the weekend or holidays because many thefts occur during these times.

Observation: During our testing of cash deposits at one site, we identified a staff club account included in the student body financial statements. The staff club account includes income generated from the staff's vending machine, which is deposited into the student body account. Any monies in the staff account are used exclusively on staff.

Recommendation: Funds raised by the staff should not be deposited into or commingled with the funds or bank account of the student body; rather, they should be accounted for in their own account, outside of the ASB operations. Furthermore, the staff club account should be removed from the student body's financial statements as this is not a valid student body account.

Observation: Education Code Section 48933(b) requires the signature of a student representative, a board designee (site administrator), and a certificated advisor. At one site, we noted 13 of the 25 disbursements tested were lacking one of the three required signatures. Currently, the approvals show the student representative signature and the same individual signs for both the district designee and the ASB advisor.

Recommendation: The site should have a district designee, usually the principal, ASB advisor, and student representative sign the document prior to disbursement. It is important for the three individuals to verify and sign the approval as ASB expenditures should be only for the general welfare and morale of the students.

Observation: At one site we noted one occasion where the individual requesting payment was the same person approving the disbursement.

Recommendation: For these instances, the site should authorize a different employee to approve payments. The expenditure should undergo unbiased approval and ensure appropriate receipts and supporting documentation is available. It is important for another individual to approve the disbursement to reduce the likelihood of the individual circumventing the ASB controls and theft to occur.

Observation: At one site, our testing identified two instances where the bank reconciliations were not prepared timely. The bank statements for October and November were reconciled on January 24, 2012.

Recommendation: We recommend that bank reconciliations be prepared monthly by someone other than the individual responsible for depositing funds, writing checks, and reviewed by the business office.

Observation: We found while conducting our year-end review that \$8,155 of receipts were submitted at one site at the end of the year. These receipts were for events and purchases dating back to September 2011.

Recommendation: We recommend that the site establish a procedure and policy for ensuring that all invoices are submitted promptly for payment by ASB advisor's and participants.

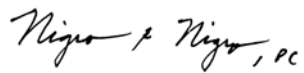
To the Board of Education
Fontana Unified School District

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: We noted that the Student Council at several ASB's did not adopt an annual operating budget. A budget is an important tool to monitor the financial activities of the ASB.

Recommendation: We recommend that the all ASB's prepare an annual budget and adopt in a timely manner. The adoption of the budget should be documented in the minutes near the beginning of the school year.

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



November 27, 2012