

**FULLERTON  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2014**



**FULLERTON SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2014*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Fullerton School District  
Fullerton, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 2013-14*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### 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 Fullerton School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1.G. to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities". The adoption of this standard required retrospective application resulting in a \$411,691 reduction of previously reported net position at July 1, 2013. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16, budgetary comparison information on pages 50 and 51, and schedule of funding progress on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

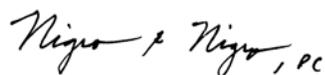
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fullerton School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California  
December 11, 2014

# **FULLERTON SCHOOL DISTRICT**

## *Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2014*

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### **INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Fullerton School District is a large suburban school district offering instruction to students from kindergarten through eighth grade, including programs for preschool and special education. During the 2013-14 school year, the District operated fifteen elementary schools, two K-8 schools, and three junior high schools, on the traditional September through June schedule, for the instruction of approximately 13,830 students.

### **MISSION STATEMENT**

The mission of the Fullerton School District is to work collaboratively with the community to provide an innovative, high-quality educational program for all students in a safe learning environment. Our motto, "Great Schools - Successful Kids" exemplifies the belief that all students will achieve academic excellence, acquire interpersonal skills, and develop technological expertise to contribute as productive citizens in a democratic society.

### **Focusing on Excellence**

#### **Student Learning**

- Develop and implement rigorous and innovative instructional programs within a safe and positive learning environment to help shape character, develop intellect, promote 21<sup>st</sup> Century learning skills, encourage collaboration, foster creativity, and provide for the joys of artistic expression.

#### **Curriculum and Assessment**

- Provide a standards-based academic program that focuses on utilizing research-based instructional strategies with effective and timely feedback that allows staff and parents to work together to make instructional decisions that promote success for all students.

#### **Budget and Resources**

- Maximize all existing funds and resources to enhance learning opportunities for all students while maintaining fiscal solvency and seeking new sources for revenue enhancement.

#### **Staffing**

- Actively recruit, retain and value highly qualified, well-trained staff members.

#### **Parents and Community**

- Promote service, partnerships and increased involvement among the District, schools, parents and the community of Fullerton to actively support our schools.

#### **Staff Development**

- Encourage and support growth by implementing research-based professional development to guide work and align training opportunities to District goals, site goals and student needs.

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**MISSION STATEMENT (continued)**

**Technology**

- Empower all students and staff to effectively integrate state-of-the-art technology in all facets of the instructional and operational programs of the District.

**Leadership**

- Sustain a professional cutting edge leadership team that works together to promote collaboration and foster a positive learning and working environment for all students and staff.

**Facilities**

- Maintain and improve facilities to provide a safe, attractive, positive learning and working environment for all students and staff.

**FINANCIAL HIGHLIGHTS**

**Districtwide Financial Statements**

- As of June 30, 2014, the District's overall financial condition improved from June 30, 2013, as Net Position increased \$3.0 million.
- Overall revenues increased \$11.2 million, to \$125 million. This reflects increased funding levels from the State of California, with material increases in Local Control Funding Formula (LCFF) revenues, as well as Common Core implementation funding.
- Overall expenditures increased \$8 million, to \$122 million. 91% (\$7.2 million) of the increased expenses were for direct instructional expenditures at the school site level.
- Since revenues increased more than expenditures, the change in net position showed an increase of \$3.0 million. This amount represents an increase in the District's reserves and provides an additional financial "cushion" to the District against potential future contingencies and uncertainties such as decreases in State funding, the financial effects of declining enrollment, emergency or unanticipated expenditures, etc.
- Total District-wide expenses were \$122.3 million. Because a portion of these costs was paid for with charges, fees, and federal and state categorical programs, the net cost that required taxpayer funding was \$92.4 million.
- The District continued to decrease its outstanding long-term debt, showing a \$1.53 million reduction for the current year (2.6%). This decrease was primarily due to principal payments made.

**General Fund Financial Statements**

- The District's General Fund again recorded a net increase to the ending Fund Balance for the year. Actual results were better than the original and revised operating budgets for the year. This positive variance came about primarily because of underspending across all programs.
- Revenues of \$108.8 million (\$87.7 million Unrestricted, \$21.1 million Restricted) were received.
- Expenditures of \$106.5 million (\$77.7 million Unrestricted, \$28.8 million Restricted) were made.

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**FINANCIAL HIGHLIGHTS (continued)**

**General Fund Financial Statements (continued)**

- Net interfund transfers in of \$1.3 million were received.
- The net result of operations was an increase to the ending fund balance of \$3.6 million. (\$2.4 million Unrestricted, \$1.2 million Restricted)

This provided the District with a General Fund ending balance of \$ 30.3 million. This was comprised of:

Reserved Amounts	\$ 642,405
Legally Restricted Balances	4,100,734
Board Designated	1,324,765
Designated for Economic Uncertainties	<u>24,272,470</u>
 Total	 <u>\$ 30,340,374</u>

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

**LCFF and Average Daily Attendance (A.D.A.)**

The majority of the District's unrestricted revenues are received from the State through the LCFF. The State switched to the LCFF funding formula in the 2013-14 fiscal year.

The State's 2013-14 budget presented an extraordinary change in California school district funding. The Revenue limits and most categorical programs which have existed since the 1970's *Serrano vs. Priest* decision were eliminated. Instead, the State implemented the Local Control Funding Formula (LCFF). Under LCFF, instead of the State allocating funds and requiring the Districts to spend money on programs and service the State determines are a priority, the new funding formula gives local boards control over how to use funds and resources in a way that improves outcomes and opportunities for all students. The new funding model specifically addresses students with greater needs – such as English learners, low-income and foster youth – with input from the community and with specific student outcome in mind.

School district leaders have conjectured that LCFF presents an historic opportunity to focus on improving student outcomes, closing achievement gaps, and increasing the level of communication between schools and their communities. Further, the State's shift away from complex categorical funding will require Districts to be strategic and collaborative when investing resources and delivering instructional programs to best serve students.

While the main drivers of the Revenue Limit were Average Daily Attendance (ADA) and State-funded Cost of Living Adjustment (COLA), LCFF adds two additional factors:

- Unduplicated Percentages of Underserved Students - defined as those students enrolled in the Free and Reduced Lunch program, English Language Learners, and Foster Youth. Due to the widely differing unduplicated count percentages in different school districts, the amounts received in LCFF funding will vary widely by District will become even more disparate as time goes on.

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**FINANCIAL HIGHLIGHTS (continued)**

**LCFF and Average Daily Attendance (A.D.A.) (continued)**

- Percentage of Gap Funding during Transition: Full implementation of the LCFF is beyond the State's current financial means. Therefore, the State intends to fully implement LCFF over an eight-year period. Each year, as part of the budget process, the Legislature and Governor (with consideration of the COLA and Proposition 98 requirements) will determine the amount of the gap funding to implement in the current budget year.

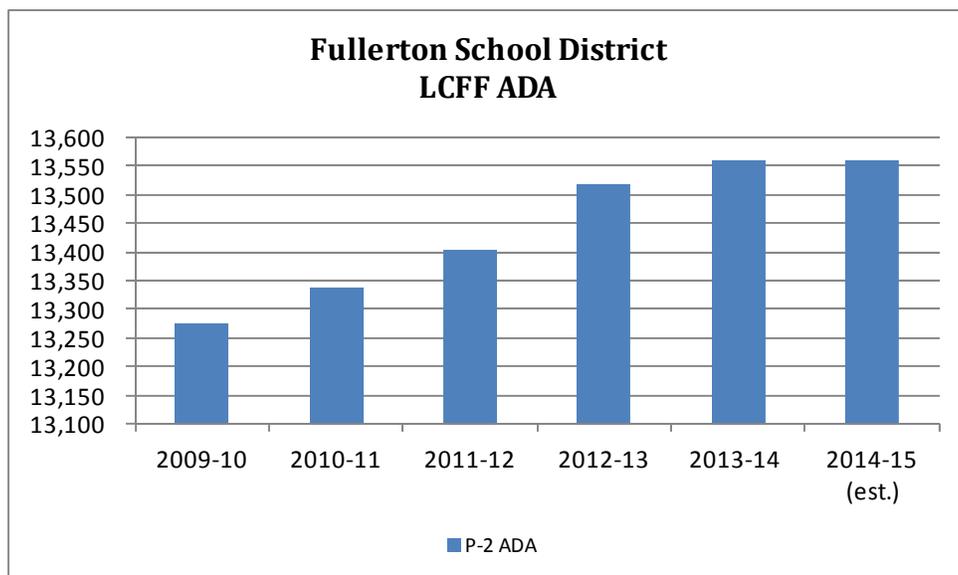
The District calculates its LCFF apportionment based upon a formula incorporating these inputs. The District receives its share of local property taxes, and the State provides Apportionment Revenue to make up the total LCFF earned.

**Average Daily Attendance (A.D.A.)**

Virtually all of the District's funding is based upon the number of students in attendance at District schools, or Average Daily Attendance (A.D.A.). A.D.A. is calculated based upon the actual number of days a student attends school, divided by the total possible instructional days (180 days for a full school year). Thus, a student who attends class every day of the school year, with no absences, earns one A.D.A.

P-2 apportionment-earning ADA used in the calculation of the Revenue Limit/LCFF for the past five years, and the estimated LCFF ADA for the current year, is as follows:

2009-10	13,276
2010-11	13,338
2011-12	13,405
2012-13	13,520
2013-14	13,558
2014-15 (est.)	13,558



**FULLERTON SCHOOL DISTRICT**  
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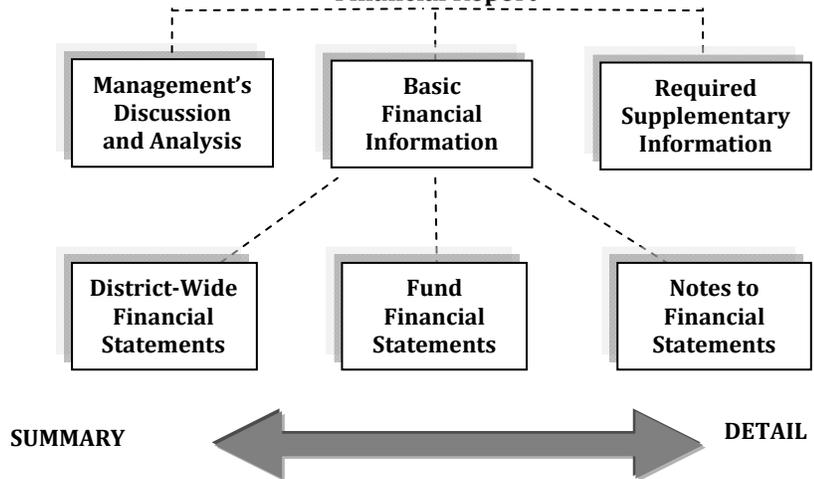
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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.

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

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



**FULLERTON SCHOOL DISTRICT**  
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*For the Fiscal Year Ended June 30, 2014*

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

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

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

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	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

## FULLERTON SCHOOL DISTRICT

### *Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2014*

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#### **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 position 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 position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics 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 aid finance most of these activities.

#### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

**FULLERTON SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
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**Fund Financial Statements (continued)**

- *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 Position 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 provides 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 and property and liability losses.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. 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 Position.** The District's combined net position was higher on June 30, 2014, than it was the year before – increasing 3.8% to \$82.6 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2014</b>	<b>2013*</b>	
Current assets	\$ 52,542,319	\$ 53,380,056	\$ (837,737)
Capital assets	92,383,441	93,537,885	(1,154,444)
<b>Total assets</b>	<b>144,925,760</b>	<b>146,917,941</b>	<b>(1,992,181)</b>
<b>Total deferred outflows of resources</b>	<b>1,497,376</b>	<b>1,611,166</b>	<b>(113,790)</b>
Current liabilities	6,941,387	10,542,613	(3,601,226)
Long-term liabilities	56,874,423	58,404,941	(1,530,518)
<b>Total liabilities</b>	<b>63,815,810</b>	<b>68,947,554</b>	<b>(5,131,744)</b>
Net position			
Net investment in capital assets	48,451,328	47,139,469	1,311,859
Restricted	14,570,080	12,431,494	2,138,586
Unrestricted	19,585,918	20,010,590	(424,672)
<b>Total net position</b>	<b>\$ 82,607,326</b>	<b>\$ 79,581,553</b>	<b>\$ 3,025,773</b>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues increased 9.8% to \$125.3 million (See Table A-2). The increase is due primarily to increase in state revenue as a result of the LCFF funding model.

The total cost of all programs and services increased 7.0% to \$122.3 million. The District's expenses are predominantly related to educating and caring for students, 82.2%. The purely administrative activities of the District accounted for just 3.9% of total costs. A significant contributor to the increase in costs was increased costs related to instructional services.

**FULLERTON SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Table A-2**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
Total revenues	\$ 125,298,632	\$ 114,068,232	\$ 11,230,400
Total expenses	122,272,859	114,301,643	7,971,216
Increase (decrease) in net position	<u>\$ 3,025,773</u>	<u>\$ (233,411)</u>	<u>\$ 3,259,184</u>

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

The Governmental Funds financial statements report the financial activities of the District net of the effect of long-term items such as capital assets, long-term debt, and other multi-year commitments. Rather, the Governmental Funds statements generally present only financial transactions related to current assets and liabilities. These statements focus on cash received and spent in one year, and what assets are available at year end that can be spent on expenses and liabilities that will be paid within one fiscal year.

At June 30, 2014, the District reported a combined fund balance of \$44.9 million for all of its governmental funds, which represents an increase of \$2.7 million to last year's ending fund balance of \$42.2 million. Although overall expenditures increased due to compensation raises and normal inflationary increases to all expenditure accounts, revenues, primarily LCFF revenue from the State, increased at a faster rate, resulting in net income and an increase to the ending fund balance.

**General Fund Budgetary Highlights**

The District's primary operating fund, and the fund where the majority of its financial transactions take place, is the General Fund.

The overall financial health of the District is generally determined by the state of its General Fund. This fund reflects the effects on the District's finances caused by increased funding or cuts imposed by the State on public education funding. It is also the fund where the District Board and administration have the most flexibility to adjust expenditures to match changes in State and Federal funding.

The District first published an estimated General Fund budget for the 2013-14 fiscal year in June 2011, as part of the three year projection included with its 2011-12 budget. Since that time, the projection has been revised many times to reflect changes in projected funding levels, as well as anticipated District expenditures.

## FULLERTON SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

#### General Fund Budgetary Highlights (continued)

The 2013-14 "Final" budget was officially approved by the Board of Trustees on June 25, 2013. Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$5.1 million primarily to reflect increases in federal, state, and local revenue estimates. The State budget was not finalized at the time of the preparation of the original District budget, therefore it reflects the old revenue limit calculations and categorical estimates. The final State budget incorporated the new LCFF funding formula; the District budget was amended to switch to the new formula. There was also an increase in the funding level. Other Federal and State revenue adjustments reflect differences between estimated and actual carryovers for June 30, 2013 (more revenue was carried over than expected so budgets increased for 2013-14). Increases in other local revenues reflect donations received during the year. The District does not budget revenues and expenditures related to donations until the actual donation is received.
- Expenses – budget increased \$8.8 million, primarily to reflect employee compensation increases negotiated in the fall of 2013, as well as the adjustment to the budget to reflect the expenditure of carryover amounts.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$4.5 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.4 million. Actual revenues were \$0.7 million less than anticipated, but expenditures were \$7.6 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

During 2013-14 the District had acquired nearly \$3.7 million in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$4.9 million.

**Table A-3: Capital Assets at Year-End, Net of Depreciation**

	Governmental Activities		Variance
	2014	2013	Increase (Decrease)
Land	\$ 9,198,655	\$ 9,198,655	\$ -
Improvement of sites	2,500,791	2,687,826	(187,035)
Buildings and improvements	77,054,835	80,215,982	(3,161,147)
Machinery and equipment	3,629,160	1,435,422	2,193,738
Total	<u>\$ 92,383,441</u>	<u>\$ 93,537,885</u>	<u>\$ (1,154,444)</u>

**FULLERTON SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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

**Long-Term Debt**

At year-end the District had \$56.9 million in general obligation bonds, certificates of participation, RDA loans, capital leases and employment benefits – a net decrease of 2.6% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
General obligation bonds	\$ 42,320,715	\$ 43,944,633	\$ (1,623,918)
Certificates of participation	6,160,000	6,470,000	(310,000)
RDA loans	346,062	377,522	(31,460)
Capital leases	620,050	698,027	(77,977)
Early retirement incentives	443,624	887,247	(443,623)
Compensated absences	1,060,118	1,259,522	(199,404)
Other postemployment benefits	5,923,854	4,767,990	1,155,864
Total	<u>\$ 56,874,423</u>	<u>\$ 58,404,941</u>	<u>\$ (1,530,518)</u>

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

**Budget Overview**

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of \$152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of \$108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and \$44.3 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

**Major Features of the 2014-15 Spending Plan**

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

**Fully Funds CalSTRS Pension Program**

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

**Proposition 98**

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

## **FULLERTON SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2014*

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

#### **Spending Changes**

Funding for K-14 education increases significantly under the new budget package. In the sections that follow, we describe how the State is spending these funds.

#### **Deferral Payments**

##### ***Pays Down \$5.2 Billion in Outstanding Deferrals***

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, and \$662 million is designated as 2014-15 spending. Under the budget plan, \$992 million in deferrals (\$897 million for schools and \$94 million for community colleges) would remain outstanding at the end of 2014-15.

##### ***Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates***

The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first \$992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

#### **Mandates**

##### ***Pays Down \$450 Million in Outstanding Education Mandate Claims***

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. The budget includes \$400 million to reduce the mandate backlog for schools. (Of this amount, \$287 million is 2014-15 Proposition 98 funding and \$113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

##### ***Adds Several Mandates to School and Community College Block Grants***

The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

#### **Energy Grants**

##### ***State Provides Second-Year Funding for Energy Projects***

Passed by voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The 2014-15 budget provides \$345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides \$279 million for school grants, \$38 million for community colleges grants, and \$28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides \$8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps (\$5 million) and the California Workforce Investment Board (\$3 million).

## **FULLERTON SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2014*

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

#### **Chapter 751 Obligation**

##### ***Makes Final \$410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06***

The 2014-15 budget makes a final \$410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of \$2.8 billion had been provided. Of the amount provided in the budget package, \$316 million is for continued funding of the QEIA program (\$268 million for schools and \$48 million for community colleges) and \$94 million is to pay down a separate state obligation related to school facility repairs.

#### **K-12 Education**

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

#### **Operational Funding**

##### ***Provides \$4.7 Billion for LCFF Implementation***

The budget plan includes \$4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes \$26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

##### ***Other Notable K-12 Actions***

The budget provides \$54 million to continue implementation of new student assessments and \$33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

#### **Infrastructure**

##### ***Allocates \$189 Million for Emergency Repair Program (ERP)***

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of \$800 million for the program. The state has provided \$338 million to date. The budget provides \$189 million for the ERP in 2014-15.

##### ***Allocates \$27 Million in One-Time Funds for School Internet Infrastructure***

The budget includes \$27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

## **FULLERTON SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2014*

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

#### ***Shifts Remaining Bond Authority Among Certain School Facility Programs***

The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

#### **Local Reserves**

##### ***Requires School Districts to Disclose and Justify Reserves***

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the amount of reserves that exceed the minimum and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

##### ***Caps Local Reserves Some Years Under Proposition 2***

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 3 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Fullerton School District budget for the 2014-15 fiscal year.

##### **Effect of the State Budget on Fullerton School District**

Material changes to the District budget provided by the passage of the State budget include a 9.54% increase to LCFF funding for the District for 2014-15, or \$8 million more in income. Additionally, the District will receive a one-time mandated cost grant of \$904 thousand.

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

This financial report is designed to provide our citizens, taxpayers, customers, 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 Susan Cross Hume, CPA, CIA, CGMA, Assistant Superintendent, Business Services at (714) 447-7412.

**FULLERTON SCHOOL DISTRICT***Statement of Net Position**June 30, 2014*

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	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 39,844,108
Accounts receivable	12,067,306
Inventories	152,918
Prepaid expenses	477,987
Total current assets	<u>52,542,319</u>
<b>Capital assets:</b>	
Non-depreciable assets	9,198,655
Depreciable assets	163,206,678
Less accumulated depreciation	<u>(80,021,892)</u>
Total capital assets	<u>92,383,441</u>
 Total assets	 <u>144,925,760</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts on refunding	<u>1,497,376</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	6,704,285
Unearned revenue	237,102
Total current liabilities	<u>6,941,387</u>
<b>Long-term liabilities:</b>	
Due or payable within one year	3,376,707
Due or payable after one year	53,497,716
Total long-term liabilities	<u>56,874,423</u>
 Total liabilities	 <u>63,815,810</u>
 <b>NET POSITION</b>	
Net investment in capital assets	48,451,328
Restricted for:	
Capital projects	4,435,068
Debt service	2,922,018
Categorical, childcare, and nutrition programs	7,212,994
Unrestricted	<u>19,585,918</u>
 Total Net Position	 <u>\$ 82,607,326</u>

**FULLERTON SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2014*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities</b>				
Instructional Services:				
Instruction	\$ 76,524,205	\$ 35,385	\$ 16,363,305	\$ (60,125,515)
Instruction-Related Services:				
Supervision of instruction	2,975,368	3,235	1,824,322	(1,147,811)
Instructional library, media and technology	2,691,736	1,536	158,321	(2,531,879)
School site administration	8,148,140	838	496,978	(7,650,324)
Pupil Support Services:				
Home-to-school transportation	1,838,296	-	-	(1,838,296)
Food services	4,958,293	-	4,328,618	(629,675)
All other pupil services	3,370,522	3,709	1,146,610	(2,220,203)
General Administration Services:				
Other general administration	4,794,671	138	740,476	(4,054,057)
Plant services	8,853,912	735	2,390,047	(6,463,130)
Transfers Between Agencies	1,177,515	-	-	(1,177,515)
Interest on long-term debt	1,940,134	-	-	(1,940,134)
Other outgo	113,209	43,155	2,347,844	2,277,790
Depreciation (unallocated)	4,886,858	-	-	(4,886,858)
<b>Total Governmental Activities</b>	<b>\$ 122,272,859</b>	<b>\$ 88,731</b>	<b>\$ 29,796,521</b>	<b>(92,387,607)</b>

**General Revenues:**

Property taxes	36,861,022
Federal and state aid not restricted to specific purpose	53,727,173
Interest and investment earnings	121,096
Miscellaneous	4,704,089
<b>Total general revenues</b>	<b>95,413,380</b>
Change in net position	3,025,773
Net position - July 1, 2013, as originally stated	79,993,244
Adjustment for restatement (Note 1.G.)	(411,691)
Net position - July 1, 2013, as restated	79,581,553
Net position - June 30, 2014	\$ 82,607,326

**FULLERTON SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2014*

	<b>General Fund</b>	<b>Cafeteria Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash	\$ 24,047,000	\$ 2,191,422	\$ 10,248,734	\$ 36,487,156
Accounts receivable	11,556,888	486,038	23,556	12,066,482
Due from other funds	200,608	-	70,262	270,870
Inventories	65,681	87,237	-	152,918
Prepaid expenditures	476,724	1,263	-	477,987
<b>Total Assets</b>	<b>\$ 36,346,901</b>	<b>\$ 2,765,960</b>	<b>\$ 10,342,552</b>	<b>\$ 49,455,413</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,290,327	\$ 577,445	\$ 160,444	\$ 4,028,216
Due to other funds	82,686	-	199,724	282,410
Unearned revenue	26,753	120,230	89,039	236,022
<b>Total Liabilities</b>	<b>3,399,766</b>	<b>697,675</b>	<b>449,207</b>	<b>4,546,648</b>
<b>Fund Balances</b>				
Nonspendable	642,405	89,320	-	731,725
Restricted	4,100,734	1,978,965	9,893,345	15,973,044
Assigned	3,931,525	-	-	3,931,525
Unassigned	24,272,471	-	-	24,272,471
<b>Total Fund Balances</b>	<b>32,947,135</b>	<b>2,068,285</b>	<b>9,893,345</b>	<b>44,908,765</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 36,346,901</b>	<b>\$ 2,765,960</b>	<b>\$ 10,342,552</b>	<b>\$ 49,455,413</b>

## FULLERTON SCHOOL DISTRICT

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2014

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<b>Total fund balances - governmental funds</b>		\$ 44,908,765
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The net of capital assets and depreciation at year-end is:		
	Capital assets at historical cost	\$ 172,405,333
	Accumulated depreciation	<u>(80,021,892)</u>
	Net:	92,383,441
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:		
		(609,527)
Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements they are recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:		
		1,497,376
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements. Long-term liabilities at year-end consist of:		
	General obligation bonds payable	\$ 42,320,715
	Certificates of participation payable	6,160,000
	Fullerton RDA loan payable	346,062
	Capital leases	620,050
	Early retirement incentive	443,624
	Compensated absences payable	1,060,118
	Other postemployment benefits payable	<u>5,923,854</u>
		(56,874,423)
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 position. Net position for internal service funds is:		
		<u>1,301,694</u>
<b>Total net position - governmental activities</b>		<u>\$ 82,607,326</u>

**FULLERTON SCHOOL DISTRICT***Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2014*

	<b>General Fund</b>	<b>Cafeteria Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Local Control Funding Formula Sources	\$ 84,500,517	\$ -	\$ -	\$ 84,500,517
Federal Sources	5,727,339	4,347,614	68,250	10,143,203
Other State Sources	8,807,959	246,355	1,190,625	10,244,939
Other Local Sources	9,833,043	1,225,798	7,279,713	18,338,554
<b>Total Revenues</b>	<b>108,868,858</b>	<b>5,819,767</b>	<b>8,538,588</b>	<b>123,227,213</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	73,047,450	-	2,671,789	75,719,239
Instruction-Related Services:				
Supervision of instruction	2,937,356	-	11,254	2,948,610
Instructional library, media and technology	2,696,315	-	-	2,696,315
School site administration	7,663,849	-	388,431	8,052,280
Pupil Support Services:				
Home-to-school transportation	1,786,209	-	-	1,786,209
Food services	-	5,045,888	-	5,045,888
All other pupil services	3,363,001	-	1,317	3,364,318
General Administration Services:				
Other general administration	5,391,136	-	-	5,391,136
Plant services	8,408,817	55,888	34,087	8,498,792
Transfers of indirect costs	(414,183)	252,350	161,833	-
Capital outlay	160,987	-	1,648,990	1,809,977
Intergovernmental	1,177,515	-	-	1,177,515
Debt service:				
Principal	310,000	-	2,270,638	2,580,638
Interest	217,345	-	1,477,847	1,695,192
<b>Total Expenditures</b>	<b>106,745,797</b>	<b>5,354,126</b>	<b>8,666,186</b>	<b>120,766,109</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,123,061	465,641	(127,598)	2,461,104
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	20,000	-	342,099	362,099
Interfund transfers out	(342,099)	-	(20,000)	(362,099)
Proceeds from capital leases	-	-	266,201	266,201
<b>Total Other Financing Sources and Uses</b>	<b>(322,099)</b>	<b>-</b>	<b>588,300</b>	<b>266,201</b>
Net Change in Fund Balances	1,800,962	465,641	460,702	2,727,305
Fund Balances, July 1, 2013	31,146,173	1,602,644	9,432,643	42,181,460
Fund Balances, June 30, 2014	\$ 32,947,135	\$ 2,068,285	\$ 9,893,345	\$ 44,908,765

**FULLERTON 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, 2014*

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**Total net change in fund balances - governmental funds** \$ 2,727,305

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

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 is:

Expenditures for capital outlay	1,660,414	
Depreciation expense	(4,886,858)	
Net expense adjustment:		(3,226,444)

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: 2,580,638

The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on refunding and are amortized to interest expense over the life of the liability. The amortization of this amount during the year was: (113,790)

In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (266,201)

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 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 was: 2,072,000

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 185,411

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: (456,493)

In governmental funds, postemployment benefit costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefit costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (1,155,864)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 26,150

In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts paid exceeded amounts earned by: 643,027

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. 10,034

**Change in net position - governmental activities** \$ 3,025,773

**FULLERTON SCHOOL DISTRICT**  
*Statement of Net Position – Proprietary Funds*  
*June 30, 2014*

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	<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>	
Cash	\$ 3,356,952
Accounts receivable	824
Due from other funds	13,218
	<hr/>
Total assets	3,370,994
	<hr/>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	41,400
Due to other funds	1,678
Unearned revenue	1,080
Estimated liability for open claims and IBNR	2,025,142
	<hr/>
Total liabilities	2,069,300
	<hr/>
<b>NET POSITION</b>	
Restricted	\$ 1,301,694
	<hr/> <hr/>

**FULLERTON SCHOOL DISTRICT***Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
For the Fiscal Year Ended June 30, 2014*

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	<b>Governmental Activities Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds	\$ 1,413,079
Other fees and contracts	<u>52,178</u>
Total operating revenues	<u>1,465,257</u>
<b>OPERATING EXPENSES</b>	
Current:	
Classified salaries	100,556
Employee benefits	30,581
Books and supplies	52,510
Services and other operating expenditures	<u>1,281,860</u>
Total operating expenses	<u>1,465,507</u>
Operating Income (Loss)	(250)
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>10,284</u>
Change in net position	10,034
Net position, July 1, 2013	<u>1,291,660</u>
Net position, June 30, 2014	<u><u>\$ 1,301,694</u></u>

**FULLERTON SCHOOL DISTRICT**  
*Statement of Cash Flows - Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2014*

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	<b>Governmental Activities Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from self-insurance premiums	\$ 1,460,755
Cash received from other sources	116,507
Cash paid for operating expenses	<u>(1,467,315)</u>
Net cash provided (used) by operating activities	109,947
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>10,269</u>
Net increase (decrease) in cash	120,216
Cash, July 1, 2013	<u>3,236,736</u>
Cash, June 30, 2014	<u><u>\$ 3,356,952</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (250)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in operating assets:	
In accounts receivable	47,676
In due from other funds	64,329
Increase (decrease) in operating liabilities:	
In accounts payable and accrued liabilities	(1,254)
In due to other funds	<u>(554)</u>
Net cash provided (used) by operating activities	<u><u>\$ 109,947</u></u>

**FULLERTON SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position*  
*June 30, 2014*

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	<b>Agency Funds</b>	
	<b>Associated Student Body Funds</b>	<b>Debt Service Fund for Special Tax Bonds</b>
<b>ASSETS</b>		
Cash	\$ 376,104	\$ 14,608
Investments	-	2,233,470
Accounts receivable	-	58
<b>Total Assets</b>	<b>\$ 376,104</b>	<b>\$ 2,248,136</b>
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 7,571
Unearned revenue	-	1,457,580
Due to student groups	376,104	-
Due to bondholders	-	782,985
<b>Total Liabilities</b>	<b>\$ 376,104</b>	<b>\$ 2,248,136</b>

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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 Fullerton School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District's component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Trustees also serves as the governing board for the Fullerton School District Capital Facilities Corporation and Community Facilities Districts. Although the board members of the Fullerton School District Facilities Corporation and the CFDs are appointed by the District Board, the entities exist solely to finance the acquisition and construction of equipment and facilities for the District.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because:</u>	<u>Separate Financial Statements</u>
<b>Fullerton School District Capital Facilities Corporation</b> 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 November 1, 2011.	Board of Trustees composes board of Facilities Corporation	Not prepared.
<b>Community Facilities Districts (CFD):</b> The District has entered into two agreements with developers to establish CFDs. CFD No. 2000-1 is known as Van Daele, and CFD No. 2001-1 is known as Amerige Heights. 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.	Board of Trustees composes board of CFDs	Not prepared.

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

#### B. Basis of Presentation, Basis of Accounting

##### 1. Basis of Presentation

###### Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

###### Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

###### Major Governmental Funds

The District maintains the following major governmental funds:

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

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

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### B. Basis of Presentation, Basis of Accounting (continued)

###### 1. Basis of Presentation (continued)

###### Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

###### Special Revenue Fund:

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

###### Capital Projects Funds:

**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.

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

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

**Capital Projects Fund for Blended Component Units:** This fund is used to account for proceeds received from the sale of special tax bonds levied for the purchase of land, expansion or rehabilitation of school facilities and related equipment.

###### 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.

###### Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. 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.

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 1. Basis of Presentation (continued)

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

Fiduciary fund reporting focuses on net position and changes in net position. 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 fund:

**Debt Service Fund for Special Tax Bonds:** This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts that are considered blended component units of the District.

**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.

##### 2. Measurement Focus, Basis of Accounting

###### **Government-Wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

###### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

#### C. Budgetary Data

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

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

#### C. Budgetary Data (continued)

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

#### D. 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.

#### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position

##### 1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

##### 2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

##### 3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

##### 4. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

###### 5. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

###### 6. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

###### 7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. This item is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

###### 7. Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

###### 8. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

##### F. 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.

##### G. New GASB Pronouncement

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

###### **Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)***

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**FULLERTON SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2014

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

**G. New GASB Pronouncement (continued)**

**Statement No. 65 (continued)**

Due to the implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 by \$411,691, which is the amount of unamortized debt issuance costs at July 1, 2013.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2014 are reported at fair value and consisted of the following:

	Rating	Governmental Activities			Fiduciary Funds
		Governmental Funds	Proprietary Fund	Total	
<b>Pooled Funds:</b>					
Cash in County Treasury		\$ 34,072,134	\$ 3,231,952	\$ 37,304,086	\$ 14,608
Total Pooled Funds		34,072,134	3,231,952	37,304,086	14,608
<b>Deposits:</b>					
Cash on hand and in banks		2,190,602	-	2,190,602	376,104
Cash in revolving fund		100,820	125,000	225,820	-
Cash with fiscal agent		123,600	-	123,600	-
Total Deposits		2,415,022	125,000	2,540,022	376,104
Total Cash		\$ 36,487,156	\$ 3,356,952	\$ 39,844,108	\$ 390,712
<b>Investments:</b>					
U.S. Bank - Money Market	N/A				\$ 2,233,470

## **FULLERTON SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2014*

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#### **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, 2014, 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. 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, 2014, \$2,394,392 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.

**FULLERTON SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2014

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

**Investments – Interest Rate Risk (continued)**

Maturities of investments held at June 30, 2014 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank - Money Market	\$ 2,233,470	\$ 2,233,470	\$ -

**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, 2014, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**Investments – Concentration of Credit Risk**

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2014, the District had the following investment that represents more than five percent of the District's net investments.

U.S. Bank - Money Market	100%
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**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2014 consisted of the following:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government:					
Categorical aid programs	\$ 1,443,970	\$ 464,389	\$ -	\$ 1,908,359	\$ -
State Government:					
Local Control Funding					
Formula Sources	7,237,466	-	-	7,237,466	-
Lottery	1,054,159	-	-	1,054,159	-
Categorical aid programs	201,972	21,639	13,872	237,483	-
Local:					
Special education	449,062	-	-	449,062	-
Interest	14,456	-	2,295	16,751	-
Other local	385,011	-	-	385,011	-
Miscellaneous	770,792	10	7,389	778,191	824
Total	<u>\$ 11,556,888</u>	<u>\$ 486,038</u>	<u>\$ 23,556</u>	<u>\$ 12,066,482</u>	<u>\$ 824</u>

**FULLERTON SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 4 - INTERFUND TRANSACTIONS**

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

Balances due to/from other funds at June 30, 2014 consisted of the following:

	Due From Other Funds				Total
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Funds	
General Fund	\$ -	\$ 70,262	\$ 70,262	\$ 12,424	\$ 82,686
Non-Major Governmental Funds	198,930	-	198,930	794	199,724
Proprietary Funds	1,678	-	1,678	-	1,678
Total	<u>\$ 200,608</u>	<u>\$ 70,262</u>	<u>\$ 270,870</u>	<u>\$ 13,218</u>	<u>\$ 284,088</u>

General Fund due to Building Fund for laptop revenues	\$ 34,592
Child Development Fund due to General Fund for payroll, program and indirect costs	144,718
Self-Insurance Fund due to General Fund for payroll expense	1,678
General Fund due to Child Development Fund for revenues, indirect costs, and expense reimbursement	35,670
General Fund due to Self-Insurance Fund for workers' compensation expense	12,424
Capital Facilities Fund due to General Fund for payroll expense and program costs	33,347
Child Development Fund due to Self-Insurance Fund for workers' compensation expense	732
Capital Facilities Fund due to Self-Insurance Fund for workers' compensation expense	62
Special Reserve Fund due to General Fund for program costs	20,865
Total	<u>\$ 284,088</u>

**B. Transfers To/From Other Funds**

Transfers to/from other funds for the fiscal year ended June 30, 2014 consisted of the following:

Child Development Fund transfer to General Fund for support of student intervention	\$ 20,000
General Fund transfer to Building Fund for laptop fees collected in the General Fund	342,099
Total	<u>\$ 362,099</u>

During the 2013-14 fiscal year, the District made interfund transfers of \$580,000 from the Special Reserve for Postemployment Benefits to the General Fund for retiree benefits and \$1,000,000 from the Special Reserve for Other Than Capital Outlay to the General Fund for mandated cost revenue. As described in Note 1B and in accordance with GASB Statement No. 54, the Special Reserve Fund for Postemployment Benefits and the Special Reserve Fund for Other Than Capital Outlay Projects are reported within the General Fund in these financial statements, therefore all interfund activity has been removed from the fund financial statements.

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### NOTE 5 – FUND BALANCES

#### Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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

At June 30, 2014, fund balances of the District's governmental funds were classified as follows:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 100,000	\$ 820	\$ -	\$ 100,820
Stores inventories	65,681	87,237	-	152,918
Prepaid expenditures	476,724	1,263	-	477,987
Total Nonspendable	642,405	89,320	-	731,725
Restricted:				
Categorical programs	4,100,734	-	-	4,100,734
Child development program	-	-	1,043,974	1,043,974
Child nutrition program	-	1,978,965	-	1,978,965
Capital projects	-	-	5,927,353	5,927,353
Debt service	-	-	2,922,018	2,922,018
Total Restricted	4,100,734	1,978,965	9,893,345	15,973,044
Assigned:				
Response to Intervention	309,105	-	-	309,105
Site discretionary	352,231	-	-	352,231
Instructional materials K-8	663,429	-	-	663,429
Deferred maintenance program	1,605,154	-	-	1,605,154
Special reserve other than capital outlay projects	874,842	-	-	874,842
Other postemployment benefits	126,764	-	-	126,764
Total Assigned	3,931,525	-	-	3,931,525
Unassigned:				
Reserve for economic uncertainties	3,204,915	-	-	3,204,915
Remaining unassigned balances	21,067,556	-	-	21,067,556
Total Unassigned	24,272,471	-	-	24,272,471
Total	\$ 32,947,135	\$ 2,068,285	\$ 9,893,345	\$ 44,908,765

**FULLERTON SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 9,198,655	\$ -	\$ -	\$ 9,198,655
Total capital assets not being depreciated	<u>9,198,655</u>	<u>-</u>	<u>-</u>	<u>9,198,655</u>
Capital assets being depreciated:				
Improvement of sites	19,680,289	-	-	19,680,289
Buildings and improvements	129,218,045	1,171,495	-	130,389,540
Machinery and equipment	10,653,331	2,560,919	77,401	13,136,849
Total capital assets being depreciated	<u>159,551,665</u>	<u>3,732,414</u>	<u>77,401</u>	<u>163,206,678</u>
Accumulated depreciation for:				
Improvement of sites	(16,992,463)	(187,035)	-	(17,179,498)
Buildings and improvements	(49,002,063)	(4,332,642)	-	(53,334,705)
Machinery and equipment	(9,217,909)	(367,181)	(77,401)	(9,507,689)
Total accumulated depreciation	<u>(75,212,435)</u>	<u>(4,886,858)</u>	<u>(77,401)</u>	<u>(80,021,892)</u>
Total capital assets being depreciated, net	<u>84,339,230</u>	<u>(1,154,444)</u>	<u>-</u>	<u>83,184,786</u>
Governmental activity capital assets, net	<u>\$ 93,537,885</u>	<u>\$ (1,154,444)</u>	<u>\$ -</u>	<u>\$ 92,383,441</u>

**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 37,805,458	\$ -	\$ 1,895,000	\$ 35,910,458	\$ 2,070,000
Accreted interest	3,565,936	456,493	-	4,022,429	-
Unamortized issuance premium	257,323	-	185,411	2,387,828	185,411
Total General Obligation Bonds	<u>43,944,633</u>	<u>456,493</u>	<u>2,080,411</u>	<u>42,320,715</u>	<u>2,255,411</u>
Certificates of Participation	6,470,000	-	310,000	6,160,000	320,000
Fullerton RDA Loan	377,522	-	31,460	346,062	31,460
Capital Leases	698,027	266,201	344,178	620,050	326,212
Early Retirement Incentive	887,247	-	443,623	443,624	443,624
Compensated Absences	1,259,522	-	199,404	1,060,118	-
Other Postemployment Benefits	4,767,990	1,155,864	-	5,923,854	-
Totals	<u>\$ 58,404,941</u>	<u>\$ 1,878,558</u>	<u>\$ 3,409,076</u>	<u>\$ 56,874,423</u>	<u>\$ 3,376,707</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the General Fund. Capital leases payments are made by the Building Fund. RDA Loan payments are made from the Capital Facilities Fund. Accumulated vacation, early retirement incentives, and other postemployment benefits will be paid for by the fund for which the employee worked.

**FULLERTON SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2014

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

**A. General Obligation Bonds**

On March 5, 2002, a special election was held at which more than 55 percent of the voters in the District approved Measure “CC”, which authorized the issuance and sale of \$49.7 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. The bonds were issued to finance the construction of new facilities, such as multipurpose rooms, and renovation and improvement at existing schools and to fund a portion of the cost of construction of a new elementary school.

**2010 General Obligation Refunding Bonds**

On December 1, 2010, the District issued \$27,645,000 of 2010 General Obligation Refunding Bonds. The bonds consist of serial bonds bearing fixed rates ranging from 2.0% to 5.0% with annual maturities from August 2011 through August 2026. The net proceeds of \$30,215,831 (after issuance costs of \$389,721, plus premium of \$2,960,552) were used to advance refund \$27,645,000 of the District’s outstanding Election of 2002, Series A General Obligation Bonds, in addition to paying the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on the refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on the refunding of \$1,361,627 remain to be amortized. As of June 30, 2014, all principal balance on the defeased debt was paid.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2013	Additions	Deductions	Balance June 30, 2014
2002 A	7/3/2002	8/1/2023	3.25%-5.375%	\$ 40,000,458	\$ 4,545,458	\$ -	\$ -	\$ 4,545,458
2002 B	8/23/2005	8/1/2026	3.9%-4.5%	9,699,542	7,610,000	-	380,000	7,230,000
2010 Ref.	12/1/2010	8/1/2026	2.0%-5.0%	27,645,000	25,650,000	-	1,515,000	24,135,000
				<u>\$ 77,345,000</u>	<u>\$ 37,805,458</u>	<u>\$ -</u>	<u>\$ 1,895,000</u>	<u>\$ 35,910,458</u>

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2014 were as follows:

Fiscal Year	Principal	Interest	Total
2014-15	\$ 2,070,000	\$ 1,412,981	\$ 3,482,981
2015-16	2,265,000	1,329,581	3,594,581
2016-17	2,475,000	1,238,806	3,713,806
2017-18	2,690,000	1,139,769	3,829,769
2018-19	2,920,000	1,032,006	3,952,006
2019-24	10,065,458	14,015,614	24,081,072
2024-27	13,425,000	1,330,550	14,755,550
Total	<u>\$ 35,910,458</u>	<u>\$ 21,499,307</u>	<u>\$ 57,409,765</u>

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

#### B. Certificates of Participation

##### 2011 Refunding Certificates of Participation

On November 10, 2011, the District issued \$6,935,000 of Refunding Certificates of Participation. The Certificates bear fixed interest rates averaging 3.4% with annual maturities from June 1, 2012 through June 1, 2029. The net proceeds of \$6,832,899 (after issuance costs of \$102,101) were used to prepay the District's outstanding Certificates of Participation.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded certificates. As a result, the refunded certificates are considered to be defeased, and the related liability for the certificates has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding of \$135,749 remain to be amortized. As of June 30, 2014, all principal balance on the defeased debt was paid.

As of June 30, 2014, the annual requirements to amortize all certificates were as follows:

Fiscal Year	Principal	Interest	Total
2014-15	\$ 320,000	\$ 206,720	\$ 526,720
2015-16	330,000	195,755	525,755
2016-17	345,000	184,365	529,365
2017-18	355,000	172,635	527,635
2018-19	365,000	160,480	525,480
2019-24	2,035,000	604,690	2,639,690
2024-29	2,410,000	230,945	2,640,945
Total	\$ 6,160,000	\$ 1,755,590	\$ 7,915,590

#### C. Fullerton Redevelopment Agency Loan

An agreement was entered into May 16, 2000 for the Fullerton Redevelopment Agency to loan \$1,320,000 to the District for the expansion of Maple Elementary School. The District received the proceeds from the loan July, 2000. The loan does not accrue interest. Payments are due each July beginning in 2001 for 25 years.

The payment amount is based on the outstanding loan balance at each June 30. Repayment requirements on the June 30, 2014 balance are as follows:

Fiscal Year	Principal
2014-15	\$ 31,460
2015-16	31,460
2016-17	31,460
2017-18	31,460
2018-19	31,460
2019-24	157,302
2024-25	31,460
Total	\$ 346,062

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### D. Capital Leases

The District leases equipment valued at \$1.4 million under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year	Principal	Interest	Total
2014-15	\$ 326,212	\$ 19,529	\$ 345,741
2015-16	202,493	7,631	210,124
2016-17	91,345	2,307	93,652
Total	\$ 620,050	\$ 29,467	\$ 649,517

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

##### E. Early Retirement Incentives

The District has entered into an agreement for early retirement incentives for eligible employees. Eligibility requirements are that employees must be age 55 with 10 years of District service or age 50 with 30 years of District service. The final payment of \$443,624 will be made during the 2014-15 year.

##### F. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings.

On August 8, 2013, the Fullerton School District Financing Authority issued \$16,475,000 in special tax revenue refunding bonds. The bonds were issued to refund two outstanding bonds previously issued by the Community Facilities Districts formed by Fullerton School District. The bonds carry stated interest rates ranging between 2.00 - 5.25% and fully mature in September 2031.

Special assessment debt of \$16,475,000 as of June 30, 2014, does not represent debt of the District and, as such, does not appear in the financial statements.

#### NOTE 8 – JOINT POWERS AGREEMENTS

The Fullerton School District participates in two joint ventures under a joint powers agreement (JPA), the Schools Excess Liability Fund (SELF) and Alliance of Schools for Cooperative Insurance Programs (ASCIP). The relationship between the Fullerton School District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes as explained below:

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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#### NOTE 8 – JOINT POWERS AGREEMENTS (continued)

SELF arranges for and provides a self-funded excess liability fund for approximately 1,100 public educational agencies. ASCIP arranges for and provides property and liability insurance for its member school districts. The JPAs are governed by boards consisting of representatives from certain member districts. The Boards control the operation of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation of the Board. Each member pays an annual contribution based upon that calculated by the JPAs' Boards and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed financial information is as follows:

	Audited SELF June 30, 2013 (in thousands)	Unaudited ASCIP June 30, 2014 (in thousands)
Total Assets	\$ 166,243	\$ 338,924
Total Liabilities	129,963	192,528
Net Position	<u>\$ 36,280</u>	<u>\$ 146,396</u>
Total Revenues	\$ 10,829	\$ 208,452
Total Expenses	14,165	196,801
Total Non-Operating Revenues	760	-
Change in Net Position	<u>\$ (2,576)</u>	<u>\$ 11,651</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. Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

#### NOTE 10 – RISK MANAGEMENT

##### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, the District was self-insured for property and liability losses with specific deductibles, but participated in the ASCIP public entity risk pool for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### Workers' Compensation

For fiscal year 2014, the District was self-funded for workers compensation, with coverage purchased from a private insurer for claims in excess of the \$1.0 million retention amount.

##### Employee Medical Benefits

The District has contracted through Metropolitan Employees Benefit Association Trust (MEBA), Anthem Blue Cross and Kaiser Permanente to provide employee medical and surgical benefits, Delta Dental and Deltacare USA for dental benefits and Vision Service Plan (VSP).

##### Claims Liability

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

##### Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

Liability Balance, July 1, 2012	\$	1,359,724
Claims and changes in estimates		2,494,225
Claims payments		<u>(1,797,395)</u>
Liability Balance, June 30, 2013		2,056,554
Claims and changes in estimates		1,250,447
Claims payments		<u>(1,281,859)</u>
Liability Balance, June 30, 2014	\$	<u><u>2,025,142</u></u>
Assets available to pay claims at June 30, 2014	\$	<u><u>3,370,994</u></u>

#### NOTE 11 – EMPLOYEE RETIREMENT PLANS

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

##### Plan Description and Provisions

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

##### Plan Description

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

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

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

##### Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50% of the normal costs of the plan, which can fluctuate year to year. For 2013-14, the normal cost is 11.85%, which rounds to a 6.0% contribution rate. "Classic" plan members continue to contribute 7.0%. 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 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2013-14	\$ 1,998,664	100%
2012-13	\$ 1,782,987	100%
2011-12	\$ 1,737,862	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. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined pension plan effective January 1, 2013. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at [www.calstrs.com](http://www.calstrs.com).

##### Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0%. "Classic" plan members are also required to contribute 8.0% of their salary. 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 CalSTRS Teachers Retirement Board. The required employer contribution rate for fiscal year 2013-14 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
2013-14	\$ 4,419,766	100%
2012-13	\$ 4,129,900	100%
2011-12	\$ 4,238,850	100%

# FULLERTON SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

#### On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$2.3 million to STRS (4.267% of salaries subject to STRS in 2013-14).

### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	123
Active plan members*	988
Total	<u>1,111</u>

\* According to the July 1, 2013 actuarial valuation

#### Plan Descriptions and Contribution Information

The District has entered into an agreement with its retired employees that the District will provide health benefits as follows:

The medical plan options consist of a PPO and HMO offered by Blue Shield of California, and Kaiser Permanente HMO. Effective January 1, 2014, these coverages are offered through the Self-Insured Schools of California (SISC III). This valuation is based on the SISC rates and medical plan selections as of January, 2014, adjusted to the valuation date at the medical trend rate. As of July 1, 2013, Delta Dental and VSP vision insurance were provided through the Metropolitan Employees Benefits Association (MEBA). Effective January 1, 2014, the District contracted directly with Delta Dental for dental insurance, and vision insurance is provided through Kaiser for members with Kaiser medical coverage, and through Alameda County Schools Insurance Group (ACSIG) for all other members.

Certificated, Classified and Management employees may retire with District-paid health benefits after completing at least 10 years of District service and attainment of age 55. Certificated employees must have 10 years of full-time service with the District in order to be eligible. Classified employees may become eligible based on part-time service, with their District contributions pro-rated for full-time equivalency less than 100%. Management employees may have up to five years of management work in another district credited towards the 10 year requirement.

Certificated retirees receive a District contribution equal to the single-party medical premium and dental PPO premium. Spouses may be covered at the retiree's expense; however, if the retiree elects one of the HMO options, the District will contribute towards spousal coverage in an amount equal to the excess of the PPO premium over the single premium for the selected HMO.

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

##### Plan Descriptions and Contribution Information (continued)

Classified retirees receive a District contribution equal to the single-party medical and dental premiums and the two-party vision premium. Spouses may be covered and the District will contribute an amount equal on behalf of the spouse equal to the excess of the average of the HMO two-party premiums over the single premium for the coverage selected. District contributions are pro-rated for part-time service.

Management retirees receive a District contribution equal to the single-party medical, dental and vision premiums. Spouses may be covered and the District will contribute an amount on behalf of the spouse equal to the excess of the highest two-party HMO premium over the single premium for the coverage selected.

The District's contribution ends at age 65 in all cases, except that one retired Superintendent is receiving lifetime two-party supplemental coverage, and three Management retirees over age 65 are currently receiving a de minimis District contribution equal to the excess of the MEBA vision rate over the single COBRA rate. Retired Superintendents and Assistant Superintendents have slightly different provisions apply but in all cases except the four mentioned above, benefits end at age 65.

##### Funding Policy

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2013-14, the District contributed \$1,512,298. This total includes \$515,923 to adjust for the implicit rate subsidy.

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

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

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

Annual required contribution (ARC)	\$ 2,753,176
Interest on net OPEB obligation	190,720
Adjustment to ARC	(275,734)
Annual OPEB cost	<u>2,668,162</u>
Contributions made:	
Implicit rate subsidy	(515,923)
Contributions for pay-as-you-go costs	(96,375)
Total contributions made	<u>(1,512,298)</u>
Increase in net OPEB obligation	1,155,864
Net OPEB obligation - July 1, 2013	<u>4,767,990</u>
Net OPEB obligation - June 30, 2014	<u>\$ 5,923,854</u>

## FULLERTON SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013-14 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 2,202,009	46%	\$ 3,864,499
2013	\$ 2,195,042	48%	\$ 4,767,990
2014	\$ 2,668,162	37%	\$ 5,923,854

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

As of July 1, 2013, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$22.2 million and the unfunded actuarial accrued liability (UAAL) was \$22.2 million.

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

##### Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open, Level Dollar Method
Remaining Amortization Period	30 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	4.0%
Long-term healthcare cost trend rates:	
Medical	5.0-8.0%
Dental and Vision	4.0%

## FULLERTON SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2014*

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#### **NOTE 13 – SUBSEQUENT EVENTS**

On September 18, 2014 the Fullerton School District issued \$6,080,000 in refunding bonds to advance refund portions of the 2002 Series B General Obligation Bonds and to pay the costs of issuing the bonds.

On October 14, 2014 the Board approved a resolution adopting the closure of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits.

#### **NOTE 14 – FUTURE GASB PRONOUNCEMENT**

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the District's financial reporting:

##### **Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

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

##### **Cost-Sharing Employers**

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

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***Required Supplementary Information***

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**FULLERTON SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2014*

	<u>Budgeted Amounts</u>		<u>Actual *</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Local Control Funding Formula Sources	\$ 71,473,519	\$ 84,371,644	\$ 84,500,517	\$ 128,873
Federal Sources	5,559,737	6,467,146	5,727,339	(739,807)
Other State Sources	17,776,156	8,687,515	8,807,959	120,444
Other Local Sources	9,606,938	10,031,682	9,826,944	(204,738)
<b>Total Revenues</b>	<b>104,416,350</b>	<b>109,557,987</b>	<b>108,862,759</b>	<b>(695,228)</b>
<b>Expenditures</b>				
Current:				
Certificated Salaries	53,143,025	54,338,296	53,874,444	463,852
Classified Salaries	15,511,027	16,160,038	16,157,586	2,452
Employee Benefits	22,738,553	22,268,021	21,830,422	437,599
Books and Supplies	5,443,917	11,432,457	6,186,382	5,246,075
Services and Other Operating Expenditures	7,524,373	8,509,654	7,079,742	1,429,912
Transfers of indirect cost	(388,813)	(381,937)	(414,183)	32,246
Capital outlay	-	70,447	69,130	1,317
Intergovernmental	800,000	1,177,200	1,177,515	(315)
Debt service				
Interest	217,345	217,345	217,345	-
Principal	310,000	310,000	310,000	-
<b>Total Expenditures</b>	<b>105,299,427</b>	<b>114,101,521</b>	<b>106,488,383</b>	<b>7,613,138</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>(883,077)</b>	<b>(4,543,534)</b>	<b>2,374,376</b>	<b>6,917,910</b>
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	1,580,000	1,600,000	1,600,000	-
Interfund Transfers Out	(223,220)	(342,100)	(342,099)	1
<b>Total Other Financing Sources and Uses</b>	<b>1,356,780</b>	<b>1,257,900</b>	<b>1,257,901</b>	<b>1</b>
Net changes in Fund Balances	473,703	(3,285,634)	3,632,277	6,917,911
Fund Balance, July 1, 2013	21,449,528	26,708,097	26,708,097	-
Fund Balance, June 30, 2014	<b>\$ 21,923,231</b>	<b>\$ 23,422,463</b>	<b>\$ 30,340,374</b>	<b>\$ 6,917,911</b>

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

**FULLERTON SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – Cafeteria Fund*  
*For the Fiscal Year Ended June 30, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Federal Sources	\$ 4,229,264	\$ 4,315,207	\$ 4,347,614	\$ 32,407
Other State Sources	218,520	229,850	246,355	16,505
Other Local Sources	1,170,859	1,188,817	1,225,798	36,981
Total Revenues	5,618,643	5,733,874	5,819,767	85,893
<b>Expenditures</b>				
Current:				
Classified Salaries	1,743,875	1,705,915	1,632,733	73,182
Employee Benefits	697,857	672,704	627,900	44,804
Books and Supplies	2,593,234	2,742,374	2,591,627	150,747
Services and Other Operating Expenditures	124,303	136,068	135,401	667
Transfers of indirect cost	252,880	261,558	252,350	9,208
Capital outlay	92,500	160,000	114,115	45,885
Total Expenditures	5,504,649	5,678,619	5,354,126	324,493
Excess (Deficiency) of Revenues Over (Under) Expenditures	113,994	55,255	465,641	410,386
Fund Balance, July 1, 2013	1,436,258	1,602,644	1,602,644	-
Fund Balance, June 30, 2014	\$ 1,550,252	\$ 1,657,899	\$ 2,068,285	\$ 410,386

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2014*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$ 17,237,044	\$ 17,237,044	0.0%	\$ 68,130,297	25.3%
July 1, 2011	\$ -	\$ 18,367,142	\$ 18,367,142	0.0%	\$ 63,252,787	29.0%
July 1, 2013	\$ -	\$ 22,214,849	\$ 22,214,849	0.0%	\$ 65,484,362	33.9%

**FULLERTON SCHOOL DISTRICT**

*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2014*

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**NOTE 1 - PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedule**

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

**Schedule of Funding Progress**

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

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

At June 30, 2014, the District incurred the following excess of expenditures over appropriations in the General Fund presented in the Budgetary Comparison Schedule:

	General Fund
Intergovernmental	<u>\$ 315</u>

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***Supplementary Information***

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**FULLERTON SCHOOL DISTRICT**

*Local Educational Agency Organization Structure*

*June 30, 2014*

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The Fullerton School District was established in 1888. The District boundaries encompass approximately 26 square miles in Orange County. There were no changes in the boundaries of the District during the current year. The District is currently operating 15 elementary schools (K-6), two combined K-8 schools, and three junior high schools.

<b>BOARD OF TRUSTEES</b>		
<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Janny Meyer	President	November 30, 2014
Chris Thompson	Vice-President	November 30, 2014
Lynn Thornley	Clerk	November 30, 2016
Beverly Berryman	Member	November 30, 2014
Hilda Sugarman	Member	November 30, 2016

**DISTRICT ADMINISTRATORS**

Robert Pletka, Ed.D.,  
*Superintendent*

Janet Morey,  
*Assistant Superintendent, Educational Services*

Mark Douglas,  
*Assistant Superintendent, Personnel Services*

Susan Cross Hume, CPA, CIA, CGMA  
*Assistant Superintendent, Business Services*

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2014*

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**Second Period Report - Certificate No. (2F3B02C1)**

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<b>Regular ADA:</b>	<b>TK/K-3</b>	<b>Grades 4-6</b>	<b>Grades 7-8</b>	<b>Total</b>
Regular ADA	5,991.05	4,435.91	3,069.00	13,495.96
Extended Year Special Education	9.17	2.54	2.14	13.85
Special Education - Nonpublic, Nonsectarian schools	-	1.14	0.42	1.56
Extended-Year Nonpublic, Nonsectarian Schools	-	-	0.07	0.07
<b>Total ADA</b>	<b>6,000.22</b>	<b>4,439.59</b>	<b>3,071.63</b>	<b>13,511.44</b>
<b>Other (included in Regular ADA amounts):</b>				
Transitional Kindergarten		138.22		

**Annual Report - Certificate No. (3DD115B4)**

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<b>Regular ADA:</b>	<b>TK/K-3</b>	<b>Grades 4-6</b>	<b>Grades 7-8</b>	<b>Total</b>
Regular ADA	5,987.14	4,427.72	3,061.81	13,476.67
Extended Year Special Education	9.17	2.54	2.14	13.85
Special Education - Nonpublic, Nonsectarian schools	-	1.36	0.36	1.72
Extended-Year Nonpublic, Nonsectarian Schools	-	-	0.07	0.07
<b>Total ADA</b>	<b>5,996.31</b>	<b>4,431.62</b>	<b>3,064.38</b>	<b>13,492.31</b>
<b>Other (included in Regular ADA amounts):</b>				
Transitional Kindergarten		137.48		

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2014*

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Grade Level	1986-87 Minutes		2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten	36,000	35,000	37,117	180	Complied
Grade 1	50,400	49,000	52,544	180	Complied
Grade 2	50,400	49,000	52,750	180	Complied
Grade 3	50,400	49,000	53,336	180	Complied
Grade 4	54,000	52,500	54,926	180	Complied
Grade 5	54,000	52,500	54,926	180	Complied
Grade 6	54,000	52,500	54,926	180	Complied
Grade 7	54,000	52,500	60,742	180	Complied
Grade 8	54,000	52,500	60,742	180	Complied

\* Amounts reduced as permitted by Education Code Section 46201.2(a).

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2014*

General Fund	(Budget) 2015 <sup>2</sup>	2014 <sup>3</sup>	2013	2012
Revenues and other financing sources	\$ 112,879,208	\$ 110,462,759	\$ 103,542,578	\$ 105,761,126
Expenditures	111,594,629	106,488,383	98,984,816	100,894,709
Other uses and transfers out	185,452	342,099	353,594	711,301
Total outgo	111,780,081	106,830,482	99,338,410	101,606,010
Change in fund balance (deficit)	1,099,127	3,632,277	4,204,168	4,155,116
Ending fund balance	\$ 31,439,501	\$ 30,340,374	\$ 26,708,097	\$ 22,503,929
Available reserves <sup>1</sup>	\$ 25,244,783	\$ 24,272,471	\$ 19,877,267	\$ 16,457,298
Available reserves as a percentage of total outgo	22.6%	22.7%	20.0%	16.2%
Total long-term debt	\$ 53,497,716	\$ 56,874,423	\$ 58,404,941	\$ 59,756,696
Average daily attendance at P-2	13,511	13,511	13,477	13,358

The General Fund balance has increased by \$7.8 million over the past two years. The fiscal year 2014-15 adopted budget projects an increase of \$1.1 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years, and anticipates an operating surplus for the 2014-15 fiscal year. The total long-term debt has decreased approximately \$2.9 million over the past two years.

Average daily attendance has increased by 153 over the past two years. The District anticipates no change in ADA for the 2014-15 fiscal year.

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

<sup>2</sup> Budget as of September 2014.

<sup>3</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2014*

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				
Especially Needy Breakfast Program	10.553	13526	\$ 413,644	
National School Lunch Program	10.555	13391	2,788,852	
Summer Food Program	10.559	13004	34,073	
USDA - Donated Foods	10.555	N/A	<u>280,629</u>	
Subtotal Child Nutrition Cluster				3,517,198
Child and Adult Care Food Program	10.558	13394		788,251
Fresh Fruit and Vegetable Program	10.582	14968		<u>42,165</u>
Total U.S. Department of Agriculture				<u>4,347,614</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind Act (NCLB):				
Title I, Part A, Low Income and Neglected	84.010	14329		1,704,646
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		544,548
Language Acquisition Grants				
Title III, Immigrant Education Program	84.365	14334	17,847	
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	<u>387,318</u>	
Subtotal Language Acquisition Grants Cluster				405,165
Arts in Education-CREATE Art Grant	84.351D	N/A		307,527
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,122,336	
IDEA Preschool Grants, Part B, Sec 619 (Age 3-4-5)	84.173	13430	74,149	
IDEA Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	<u>183,214</u>	
Subtotal Special Education Cluster				<u>2,379,699</u>
Total U.S. Department of Education				<u>5,341,585</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Child Development: Federal General and State Preschool	93.596	13609		68,250
Passed through California Dept. of Health Services:				
Medi-Cal Billing Option & Administrative Activities	93.778	10013		<u>328,569</u>
Total U.S. Department of Health & Human Services				<u>396,819</u>
Total Expenditures of Federal Awards				<u>\$ 10,086,018</u>

**FULLERTON SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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*There were no differences between the Annual Financial and Budget Report and the  
Audited Financial Statements in any funds.*

## **FULLERTON SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2014*

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### **NOTE 1 – PURPOSE OF SCHEDULES**

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

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

#### **Schedule of Instructional Time**

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. 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 the 1986-87 requirement, as reduced by Education Code Section 46201.2(a).

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

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

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

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

#### **Subrecipients**

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

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

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

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***Other Independent Auditors' Reports***

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

Board of Trustees  
Fullerton School District  
Fullerton, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fullerton School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fullerton School District's basic financial statements, and have issued our report thereon dated December 11, 2014.

**Internal Control Over Financial Reporting**

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

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

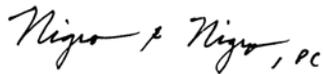
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Murrieta, California  
December 11, 2014

**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Trustees  
Fullerton School District  
Fullerton, California

**Report on Compliance for State Programs**

We have audited Fullerton 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 2013-14*, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Fullerton School District's state programs are identified below.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Fullerton School District's State programs based on our audit of the types of compliance requirements referred to below. 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 2013-14*. 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 Fullerton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each State program. However, our audit does not provide a legal determination of Fullerton School District's compliance.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable

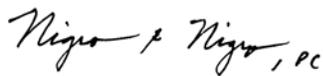
Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No (see below)
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	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
Charter School Facility Grant Program	1	Not applicable

We did not perform testing for California Clean Energy Jobs Act because the District had no expenditures.

***Opinion on Compliance with State Programs***

In our opinion, Fullerton School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.



Murrieta, California  
December 11, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE**

Board of Trustees  
Fullerton School District  
Fullerton, California

**Report on Compliance for Each Major Federal Program**

We have audited Fullerton 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 Fullerton School District's major federal programs for the year ended June 30, 2014. Fullerton School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Fullerton School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fullerton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Fullerton School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Fullerton School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

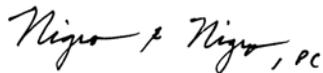
### **Report on Internal Control Over Compliance**

Management of Fullerton School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fullerton School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Murrieta, California  
December 11, 2014

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***Findings and Questioned Costs***

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**FULLERTON SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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

***Financial Statements***

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</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>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, <u>10.559</u>	<u>Child Nutrition Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program</u>
93.778	<u>Medi-Cal Billing Option &amp; Administrative Activities</u>
<u>84.351D</u>	<u>Arts in Education</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 302,592</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>None reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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

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

***There were no financial statement findings in 2013-14.***

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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

*There were no federal award findings or questioned costs in 2013-14.*

**FULLERTON SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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

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

*There were no state award findings or questioned costs in 2013-14.*

**FULLERTON SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2014*

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*There were no audit findings in 2012-13.*