

**CAPISTRANO UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

CAPISTRANO UNIFIED SCHOOL DISTRICT
OF ORANGE COUNTY
SAN JUAN CAPISTRANO, CALIFORNIA
JUNE 30, 2009

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CAPISTRANO UNIFIED SCHOOL DISTRICT

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CAPISTRANO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 2008-09* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Capistrano Unified School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 14 and budgetary comparison and other postemployment benefit information on pages 58 and 59, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, the Combining Statements – Non-Major Governmental Funds and the General Fund and Cafeteria Fund Selected Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

VAJRAK, TRIN. DAY & CO. LLP

Rancho Cucamonga, California
December 14, 2009



Capistrano Unified School District

Excellence in Education

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This section of Capistrano Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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



CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$752.3 million for the fiscal year ended June 30, 2009. Of this amount, \$12.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Table 1

(Amounts in millions)	Governmental Activities	
	2009	2008
Assets		
Current and other assets	\$ 121.5	\$ 121.8
Capital assets	769.4	771.4
Total Assets	890.9	893.2
Liabilities		
Current liabilities	26.6	31.5
Long-term obligations	112.0	113.9
Total Liabilities	138.6	145.4
Net Assets		
Invested in capital assets, net of related debt	707.1	709.6
Restricted	32.8	32.6
Unrestricted	12.4	5.6
Total Net Assets	\$ 752.3	\$ 747.8

The \$12.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)

	Governmental Activities	
	2009	2008
Revenues		
Program revenues:		
Charges for services	\$ 8.6	\$ 11.0
Operating grants and contributions	95.0	97.3
Capital grants and contributions	4.6	2.6
General revenues:		
Federal and State aid not restricted	48.9	66.9
Property taxes	264.3	253.4
Other general revenues	33.7	19.9
Total Revenues	455.1	451.1
Expenses		
Instruction-related	324.1	327.6
Student support services	42.1	44.6
Administration	13.8	17.7
Maintenance and operations	31.8	34.4
Depreciation (unallocated)	18.6	17.0
Other	20.2	20.7
Total Expenses	450.6	462.0
Change in Net Assets	\$ 4.5	\$ (10.9)

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$450.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$264.3 million because the cost was paid by those who benefited from the programs (\$8.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$99.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$82.6 million in unrestricted State and Federal funds, and with other revenues, such as interest and general entitlements. Key changes affecting net assets during the 2008-2009 fiscal year include:

- a. Decrease of nearly 27 percent in State and Federal unrestricted funding, due mainly to declining State and Federal aid.
- b. Other General Revenues increased by nearly 80 percent due in part to a one-time allocation of State Fiscal Stabilization Funds.
- c. District administration costs were reduced by 22 percent.

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

Table 3

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction-related	\$ 324.1	\$ 327.6	\$ 254.1	\$ 257.0
Student support services	42.1	44.6	18.4	21.1
Administration	13.8	17.7	10.9	14.6
Maintenance and operations	31.8	34.4	29.0	29.9
Depreciation (unallocated)	18.6	17.0	18.6	17.0
Other	20.2	20.7	11.5	11.5
Total	\$ 450.6	\$ 462.0	\$ 342.5	\$ 351.1

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$87.8 million, which is an increase of \$6.6 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2008	Revenues	Expenditures	June 30, 2009
General	\$ 21.8	\$ 411.0	\$ 403.7	\$ 29.1
Capital project fund for blended component units	25.2	12.9	13.4	24.7
Adult education	2.2	3.8	3.8	2.2
Child development	1.8	5.9	6.2	1.5
Cafeteria	1.2	12.0	11.3	1.9
Deferred maintenance	4.4	3.8	1.1	7.1
Special reserve fund for postemployment benefits	0.3	-	-	0.3
Building	5.9	0.1	0.3	5.7
Capital facilities	5.8	1.2	3.2	3.8
County school facilities	4.5	4.7	6.8	2.4
Special reserve fund for capital outlay projects	2.2	3.6	2.9	2.9
Bond interest and redemption	3.4	4.5	4.5	3.4
Debt service	2.5	2.3	2.0	2.8
Total	\$ 81.2	\$ 465.8	\$ 459.2	\$ 87.8

The primary reason for the decrease in the combined fund balances is due to changes within the General Fund.

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased from \$21.8 million to \$29.1 million. This increase is due primarily to:
 1. Decreased State revenue, due to a deficit factor applied to the Cost of Living Adjustment (COLA).
 2. One time funding allocated to CUSD, in the amount of \$17.7 million, from the State Fiscal Stabilization Fund (SFSF) through the American Recovery and Reinvestment Act of 2009.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in September 2009. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 58).

The District adopted its budget for the 2008-09 school year in June 2008. The District's final budget incorporated:

- a. Carrying-forward estimated actual amounts from the prior year's budget, and utilizing factoring assumptions provided by the Orange County Department of Education.
- b. District-generated enrollment projections.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

- c. Specific programmatic needs.
- d. AB 1200, which mandates that the district prove solvency in the current fiscal year and two years out.

The District officially revised its budget on five occasions:

- a. September 2008, which incorporated the application of carryover from the fiscal year end 2007-08.
- b. December 2008, which incorporated the changes in ADA funding and additional programmatic funding, based on the First Interim Report.
- c. March 2009, which incorporated further changes and refinements to ADA and programmatic funding based on the Second Interim Report.
- d. June 2009, which incorporated additional changes and refinements to ADA and programmatic funding, based on the 2008-09 Estimated Actuals, and the adoption of the 2009-10 budget.
- e. September 2009, which incorporated the fiscal year end changes to ADA and programmatic funding, as well as activity reflected in the unaudited financials.

Annual changes in employee salaries, based on the movement within step, column, and longevity were factored into the budget adoption for the 2008-09 fiscal year. Additionally, increases and changes to employee health and welfare benefits were also incorporated in the fiscal year budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had \$769.4 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately \$2.0 million, or .003 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities	
	2009	2008
Land and construction		
in progress	\$ 281.1	\$ 376.7
Buildings and improvements	481.6	392.9
Equipment	6.7	1.8
Total	\$ 769.4	\$ 771.4

The significant changes between 2008 and 2009 in land and construction in progress (\$95.6 million) was due mainly to the completion of several capital initiatives at San Clemente High School (gymnasium and pool), and San Juan High School (classroom additions). The completion of selected projects initiated an accounting change from land and construction in progress to buildings and improvements. Additionally, acquisition of additional cafeteria equipment, classroom equipment (such as computers), as well as on-going construction and modernization costs accounted for the remainder of changes in buildings and improvements and equipment. No new debt was issued for these activities.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

A small number of capital projects are planned for the 2009-10 year, as well as the planning for future possible capital initiatives. The District plans to acquire additional capitalized supplies, equipment, and furnishings during the 2009-10 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had \$112.0 million in long-term obligations versus \$113.9 million last year, a decrease of .02 percent. Those obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities	
	2009	2008
General obligation bonds (financed with property taxes)	\$ 60.2	\$ 61.6
Certificates of participation	25.5	26.2
Capitalized lease obligations	1.0	0.7
Other postemployment benefits (OPEB)	7.4	2.7
Compensated absences	3.0	4.1
Supplemental early retirement plan (SERP)	0.7	2.8
Promissory note	6.0	6.0
Other	8.2	9.8
Total	\$ 112.0	\$ 113.9

The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$60.0 million is significantly below this \$3.3 billion statutorily-imposed limit.

Other obligations include an Energy Assistance Loan, a Developer Fee Agreement, and Claims Liability. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the June 28, 2009 Special Board meeting, the Board of Trustees adopted the Final Budget for the 2009-10 school year. At that time, the State Legislature had not adopted a State budget. In considering the District budget for the 2009-2010 year, the Board of Trustees and management used the following criteria and assumptions:

Budget Adoption:

Cost of Living Adjustment (COLA)	4.25%
Average Daily Attendance	50,134
ADA Growth	57
Base Revenue Limit	\$6,373
Funded Revenue Limit	\$5,228
Revenue Limit Deficit	17.97%
Lottery Funding per ADA	\$121

The most current District budget, the 2009-2010 First Interim Financial Report, was presented and approved by the Board of Trustees on December 15, 2009. This revised budget incorporates actual enrollment (based on P1 data) and staffing data. The District experienced an increase over the budgeted ADA, from 50,134 to 50,205 students. The First Interim projected the following activity (in millions):

Beginning Fund Balance:	\$ 35.9
Revenues and Transfers-In:	360.0
(LESS) Expenses and Transfers-Out:	<u>385.6</u>
Ending Fund Balance:	<u>\$ 10.3</u>
 (LESS) Reserve for Economic Uncertainty	<u>\$ 7.7</u>
(LESS) Locally Unrestricted Designations	2.3
(LESS) Revolving Cash and Stores	<u>0.3</u>
Net Ending Fund Balance	<u>\$ 0.0</u>

The State mandates a minimum 2 percent reserve for a district the size of CUSD, and the current reserve for economic uncertainty is 2.00 percent, or \$7.73 million. The remaining ending fund balance is reserved for local, state, and federal restricted purposes, in addition to other operational needs. Additionally, the assumptions used to calculate the fund balance above were revised as necessary for the First Interim, and the revisions are noted below:

First Interim

Cost of Living Adjustment (COLA)	4.25%
Average Daily Attendance	50,205
ADA Growth	71
Base Revenue Limit	\$6,373
Funded Revenue Limit	\$5,203
Revenue Limit Deficit	18.36%
Lottery Funding per ADA	\$124

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

The economic downturn embroiling Local, State, and Federal governments continues to have a significant impact upon the District budget during the 2009-10 fiscal year. With the preparation of the District's First Interim Financial Report, CUSD has maintained a balanced budget for 2009-10. However, there are still projected budget shortfalls of \$21.5 million in 2010-11 and \$3.7 million in 2011-12, for which the district must identify cost reductions.

The Legislative Analyst Office (LAO) has recently presented new analysis of the State Budget, in which they forecast a potential 18-month deficit of \$21 billion. Specifically, the LAO has projected a current year shortfall of approximately \$6.3 billion. The Governor's proposal for the 2010-11 State Budget is scheduled to be released in early January 2010. At that time, the LAO's projected budget shortfalls will be quantified into the State's projection for the 2009-10 and 2010-11 fiscal years. The ramifications of these further projected deficits may force the District and other local educational agencies (LEAs) to make significant mid-year cuts during 2009-10, and to cut additional costs during future budget years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Kristofer R. Pitman, Executive Director, Fiscal Services, at Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, California, 92675, or e-mail at krpitman@capousd.org.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2009

	Governmental Activities
ASSETS	
Deposits and investments	\$ 90,698,594
Receivables	29,109,235
Prepaid expenses	508,906
Deferred costs on issuance	817,748
Stores inventories	398,255
Capital assets	
Land and construction in progress	281,078,884
Other capital assets	684,816,437
Less: accumulated depreciation	(196,542,690)
Total Capital Assets	<u>769,352,631</u>
Total Assets	<u>890,885,369</u>
LIABILITIES	
Accounts payable	22,881,520
Accrued interest payable	1,004,217
Deferred revenue	2,653,256
Long-term obligations	
Current portion of long-term obligations	12,450,664
Noncurrent portion of long-term obligations	99,586,496
Total Long-Term Obligations	<u>112,037,160</u>
Total Liabilities	<u>138,576,153</u>
NET ASSETS	
Invested in capital assets, net of related debt	707,076,105
Restricted for:	
Debt service	5,190,065
Capital projects	4,980,212
Educational programs	9,824,913
Other activities	12,780,576
Unrestricted	12,457,345
Total Net Assets	<u><u>\$ 752,309,216</u></u>

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 278,878,845	\$ 88,932	\$ 48,432,409	\$ 4,611,607
Instruction-related activities:				
Supervision of instruction	11,276,145	66,982	9,641,714	-
Instructional library, media, and technology	3,597,258	-	1,871,825	-
School site administration	30,334,479	18,684	5,280,645	-
Pupil services:				
Home-to-school transportation	10,760,155	491,984	2,955,634	-
Food services	11,080,918	6,891,123	4,465,714	-
All other pupil services	20,256,296	39,603	8,866,802	-
Administration:				
Data processing	2,540,259	-	111,635	-
All other administration	11,285,555	231,647	2,593,370	-
Plant services	31,840,834	409,831	2,388,214	-
Facility acquisition and construction	426,631	-	-	-
Ancillary services	3,728,060	-	-	-
Community services	127,280	-	126,808	-
Enterprise services	1,403,625	3,831	1,395,390	-
Interest on long-term obligations	4,546,815	-	-	-
Other outgo	9,983,224	315,528	6,863,124	-
Depreciation (unallocated) ¹	18,552,724	-	-	-
Total Governmental Activities	\$ 450,619,103	\$ 8,558,145	\$ 94,993,284	\$ 4,611,607
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Interagency revenues				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

¹This amount excludes any depreciation that is included in the direct expenses of the various programs.
The accompanying notes are an integral part of these financial statements.

**Net (Expenses)
Revenues and
Changes in
Net Assets**

**Governmental
Activities**

\$	(225,745,897)
	(1,567,449)
	(1,725,433)
	(25,035,150)
	(7,312,537)
	275,919
	(11,349,891)
	(2,428,624)
	(8,460,538)
	(29,042,789)
	(426,631)
	(3,728,060)
	(472)
	(4,404)
	(4,546,815)
	(2,804,572)
	(18,552,724)
	<u>(342,456,067)</u>
	257,011,154
	4,448,132
	2,866,372
	48,935,624
	1,781,363
	234,639
	<u>31,699,932</u>
	<u>346,977,216</u>
	4,521,149
	747,788,067
\$	<u><u>752,309,216</u></u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$25,440,871	\$ 25,814,904	\$ 33,818,236	\$ 85,074,011
Receivables	26,906,577	27,437	1,824,152	28,758,166
Due from other funds	1,887,927	498,517	2,082,142	4,468,586
Prepaid expenditures	508,906	-	-	508,906
Stores inventories	220,121	-	178,134	398,255
Total Assets	\$54,964,402	\$ 26,340,858	\$ 37,902,664	\$ 119,207,924
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$20,009,840	\$ 724,487	\$ 1,890,983	\$ 22,625,310
Due to other funds	3,619,643	894,238	1,603,511	6,117,392
Deferred revenue	2,217,031	-	436,225	2,653,256
Total Liabilities	25,846,514	1,618,725	3,930,719	31,395,958
Fund Balances:				
Reserved for:				
Revolving cash	175,000	-	-	175,000
Stores inventories	220,121	-	-	220,121
Prepaid expenditures	508,906	-	-	508,906
Legally restricted balances	9,824,913	-	-	9,824,913
Unreserved:				
Designated	18,388,948	-	27,777,663	46,166,611
Undesignated, reported in:				
Debt service funds	-	-	6,194,282	6,194,282
Capital projects funds	-	24,722,133	-	24,722,133
Total Fund Balance	29,117,888	24,722,133	33,971,945	87,811,966
Total Liabilities and Fund Balances	\$54,964,402	\$ 26,340,858	\$ 37,902,664	\$ 119,207,924

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2009

Total Fund Balance - Governmental Funds		\$ 87,811,966
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 965,895,321	
Accumulated depreciation is	<u>(196,542,690)</u>	
Net Capital Assets		769,352,631
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		817,748
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,004,217)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		238,523
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	53,689,929	
Premium on bonds	249,609	
Certificates of participation	25,470,000	
Capital leases payable	1,014,694	
Other postemployment benefits (OPEB)	7,431,332	
Compensated absences (vacations)	2,954,511	
Energy assistance loan	213,002	
Developer fee agreement	893,179	
Supplemental early retirement plan (SERP)	719,179	
Promissory note	6,000,000	
In addition, the District has issued "capital appreciation" general obligation bonds. The accretion of interest on unmatured general obligation bonds to date is the following:	<u>6,272,000</u>	
Total Long-Term Obligations		(104,907,435)
Total Net Assets - Governmental Activities		<u>\$ 752,309,216</u>

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$282,607,618	\$ -	\$ 1,761,957	\$ 284,369,575
Federal sources	38,584,182	-	4,965,585	43,549,767
Other State sources	77,944,922	-	9,240,433	87,185,355
Other local sources	9,915,884	7,937,035	21,848,554	39,701,473
Total Revenues	409,052,606	7,937,035	37,816,529	454,806,170
EXPENDITURES				
Current				
Instruction	269,474,501	-	5,320,609	274,795,110
Instruction-related activities:				
Supervision of instruction	10,530,828	-	1,098,870	11,629,698
Instructional library, media and technology	3,538,480	-	-	3,538,480
School site administration	29,132,585	-	1,085,842	30,218,427
Pupil services:				
Home-to-school transportation	10,302,779	-	-	10,302,779
Food services	300	-	10,991,155	10,991,455
All other pupil services	19,587,861	-	374,457	19,962,318
Administration:				
Data processing	2,515,278	-	-	2,515,278
All other administration	10,763,482	-	603,981	11,367,463
Plant services	30,384,332	-	1,192,114	31,576,446
Facility acquisition and construction	142,289	11,741,543	5,429,033	17,312,865
Ancillary services	3,684,038	-	-	3,684,038
Community services	592	-	126,839	127,431
Other outgo	8,883,819	1,065,753	33,652	9,983,224
Enterprise services	20,086	-	1,402,589	1,422,675
Debt service				
Principal	2,519,150	-	3,657,318	6,176,468
Interest and other	138,954	-	3,497,848	3,636,802
Total Expenditures	401,619,354	12,807,296	34,814,307	449,240,957
Excess (Deficiency) of Revenues Over Expenditures	7,433,252	(4,870,261)	3,002,222	5,565,213
Other Financing Sources (Uses)				
Transfers in	875,000	5,048,650	4,033,031	9,956,681
Other sources	1,015,391	-	-	1,015,391
Transfers out	(2,050,000)	(634,517)	(7,272,164)	(9,956,681)
Net Financing Sources (Uses)	(159,609)	4,414,133	(3,239,133)	1,015,391
NET CHANGE IN FUND BALANCES	7,273,643	(456,128)	(236,911)	6,580,604
Fund Balance - Beginning	21,844,245	25,178,261	34,208,856	81,231,362
Fund Balance - Ending	\$ 29,117,888	\$ 24,722,133	\$ 33,971,945	\$ 87,811,966

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds **\$ 6,580,604**

**Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:**

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

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

Depreciation expense	\$ (18,909,025)	
Capital outlays	<u>16,883,185</u>	
Net Expense Adjustment		(2,025,840)

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (9,582)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term obligations in the statement of net assets. (1,015,391)

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual required contribution. (4,707,632)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Special termination benefits used was more than amount earned by \$2,103,240. Vacation used was more than the amounts earned by \$1,125,894. 3,229,134

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2009

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.

General obligation bonds	\$ 2,315,000
Certificates of participation	700,000
Capital lease obligations	734,158
Energy assistance loan	115,424
Developer fee agreement	208,646

Debt issue costs are recognized as expenditures in the period they are incurred in governmental funds. However, in the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

(18,098)

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is a result of two factors. First, accrued interest on general obligation bonds and certificates of participation decreased by \$42,521. Second, \$934,436 of additional accumulated interest was accreted on the Districts' "capital appreciation" general obligation bonds.

(891,915)

An internal service fund is used by the District's management to charge the costs of the workers' compensation and property and liability insurance programs and the health and welfare benefit program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

(693,359)

Change in Net Assets of Governmental Activities

\$ 4,521,149

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 5,624,583
Receivables	351,069
Due from other funds	1,649,455
Total Current Assets	7,625,107
LIABILITIES	
Current Liabilities	
Accounts payable	256,210
Due to other funds	649
Current portion of claims liability	2,500,747
Total Current Liabilities	2,757,606
Noncurrent Liabilities	
Noncurrent portion of long-term obligations	4,628,978
NET ASSETS	
Unrestricted	238,523
Total Net Assets	\$ 238,523

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 50,649,300
All other fees and contracts	132,460
Total Operating Revenues	50,781,760
OPERATING EXPENSES	
Payroll costs	409,723
Professional and contract services	51,264,881
Supplies and materials	11,719
Total Operating Expenses	51,686,323
Operating Loss	(904,563)
NONOPERATING REVENUES	
Interest income	211,204
Change in Net Assets	(693,359)
Total Net Assets - Beginning	931,882
Total Net Assets - Ending	\$ 238,523

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
CASH FLOWS USED BY OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 50,300,832
Other operating cash receipts	172,434
Cash payments to employees for services	(409,723)
Cash payments for interfund services used	(51,112,280)
Other operating cash payments	(1,691,679)
Net Cash Used by Operating Activities	(2,740,416)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	230,814
Net Decrease in Cash and Cash Equivalents	(2,509,602)
Cash and Cash Equivalents - Beginning	8,134,185
Cash and Cash Equivalents - Ending	\$ 5,624,583
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (904,563)
Changes in assets and liabilities:	
Accounts receivable	39,974
Due from other funds	(348,468)
Accounts payable	129,754
Due to other funds	(478,067)
Claims liability	(1,179,046)
NET CASH USED BY OPERATING ACTIVITIES	\$ (2,740,416)

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 46,706,433
Receivables	197,374
Stores inventories	16,761
Total Assets	<u><u>\$ 46,920,568</u></u>
LIABILITIES	
Accounts payable	\$ 267,390
Due to student groups	3,193,624
Due to bondholders	43,459,554
Total Liabilities	<u><u>\$ 46,920,568</u></u>

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Capistrano Unified School District (the District) was unified in 1965 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates thirty six elementary schools, eleven middle schools, two kindergarten through eighth grade schools, six high schools, one continuation high school, one adult school and an independent study program.

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

Component Units

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

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

Other Related Entities

Charter School The District has approved a Charter for Journey Charter School, Opportunity for Learning Charter School, and Capistrano Connections Academy pursuant to *Education Code* Section 47605. The Charter Schools are direct-funded and are not considered component units of the District.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Special Reserve Fund for Postemployment Benefits The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

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

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

Debt Service Funds The Debt Service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on certificates of participation.

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Internal Service Fund Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates workers' compensation and property and liability insurance programs that are accounted for in the internal service fund. In addition, the District's health and welfare benefit programs are accounted for in the internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has no trust funds. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes for payment of non-obligatory debt related to the CFDs.

Basis of Accounting - Measurement Focus

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

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

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

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

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

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$32,775,766 of net assets restricted by enabling legislation.

Operating Revenues and Expenses

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 90,698,594
Fiduciary funds	46,706,433
Total Deposits and Investments	<u>\$ 137,405,027</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 8,881,512
Cash in revolving	867,750
Investments	127,655,765
Total Deposits and Investments	<u>\$ 137,405,027</u>

Policies and Practices

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Investment Pool and LAIF. For all other investments, the District manages its exposure by purchasing a combination of shorter term and longer term investments and by limiting the total amount invested in any one issuer.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type.

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

Investment Type	Cost Basis	Fair Value	Maturity Date/ Average Maturity in Days	Moody's Rating
Orange County Investment Pool	\$ 60,103,118	\$ 60,209,297	266	Aaa
Local Agency Investment Fund (LAIF)	517,674	518,380	235	Aaa
First American Treasury Obligations Fund Class D	54,392,718	54,392,718	46	Aaa
First American Prime Obligations Fund Class Z	1,811,181	1,811,181	49	Aaa
AIG Matched Fundings Corp. Investment Agreement	2,218,000	2,218,000	9/1/2023	*
Bayerische Landesbank Girozentrale - Investment Agreement	637,750	637,750	9/1/2014	*
FSA Capital Management Service GIC Investment	1,932,264	1,932,264	8/25/2032	*
FSA Capital Management Service GIC Investment	3,576,000	3,576,000	8/25/2020	*
FSA Capital Management Service GIC Investment	2,467,060	2,467,060	12/1/2026	*
Total	<u>\$ 127,655,765</u>	<u>\$ 127,762,650</u>		

* Not rated, nor required to be rated

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent (5%) or more of the total investments include the investments in FSA Capital Management Services GIC. The total cost of these investments is \$7,975,324 (fair value of \$7,975,324) and represents 6.25 percent of the total investments held by the District.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, the District's bank balance of \$156,965 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District. An additional amount of \$2,087,021 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District has an investment agreement with FSA Capital Management Services that is reported in the Debt Service Fund. In addition, the financial statements reflect various investment agreements held in fiduciary funds related to the CFDs. A stipulation for each investment agreement requires the collateralization of each investment agreement. As a result, respective collateral agents for the investment agreements hold securities representing 102 percent of the outstanding principal amount of the investment agreement on behalf of the trustee, U.S. Bank. As such, investment agreements with a cost and fair value of \$10,831,074, are subject to custodial credit risk exposure of \$10,831,074 because the related securities are uninsured, unregistered and held by counterparty's trust department or agent but not in the name of the District.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Federal Government						
Categorical aid	\$ 9,443,202	\$ -	\$ 873,148	\$ -	\$10,316,350	\$ -
State Government						
Apportionment	5,109,655	-	350,124	-	5,459,779	-
Categorical aid	6,410,109	-	97,856	-	6,507,965	-
Lottery	3,296,194	-	-	-	3,296,194	-
Local Government						
Interest	94,492	27,437	49,066	8,571	179,566	-
Property taxes	454,462	-	2,315	-	456,777	197,374
Other Local Sources						
Due from associated student bodies	1,005,104	-	-	-	1,005,104	-
Due from parent teacher associations and boosters	184,904	-	-	-	184,904	-
Due from Orange County Department of Education	266,626	-	-	-	266,626	-
Other	641,829	-	451,643	342,498	1,435,970	-
Total	<u>\$ 26,906,577</u>	<u>\$ 27,437</u>	<u>\$ 1,824,152</u>	<u>\$ 351,069</u>	<u>\$29,109,235</u>	<u>\$ 197,374</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 278,778,330	\$ -	\$ -	\$ 278,778,330
Construction in Progress	97,966,544	1,436,060	97,102,050	2,300,554
Total Capital Assets Not Being Depreciated	<u>376,744,874</u>	<u>1,436,060</u>	<u>97,102,050</u>	<u>281,078,884</u>
Capital Assets Being Depreciated:				
Land Improvements	26,086,029	14,948,112	-	41,034,141
Buildings and Improvements	530,014,503	91,630,478	-	621,644,981
Furniture and Equipment	16,418,536	5,970,585	251,806	22,137,315
Total Capital Assets Being Depreciated	<u>572,519,068</u>	<u>112,549,175</u>	<u>251,806</u>	<u>684,816,437</u>
Total Capital Assets	<u>949,263,942</u>	<u>113,985,235</u>	<u>97,353,856</u>	<u>965,895,321</u>
Less Accumulated Depreciation:				
Land Improvements	2,974,551	1,692,659	-	4,667,210
Buildings and Improvements	160,277,241	16,193,425	-	176,470,666
Furniture and Equipment	14,624,097	1,022,941	242,224	15,404,814
Total Accumulated Depreciation	<u>177,875,889</u>	<u>18,909,025</u>	<u>242,224</u>	<u>196,542,690</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 771,388,053</u>	 <u>\$ 95,076,210</u>	 <u>\$ 97,111,632</u>	 <u>\$ 769,352,631</u>

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

Governmental Activities

Home-to-school transportation	<u>\$ 356,301</u>
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The remaining \$18,552,724 in depreciation expense was classified as unallocated on the statement of activities.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2009, between major and non-major governmental funds and internal service funds:

Due To	Due From				Total
	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 894,238	\$ 993,040	\$ 649	\$ 1,887,927
Capital Project Fund for Blended Component Units	-	-	498,517	-	498,517
Non-Major Governmental Funds	2,078,839	-	3,303	-	2,082,142
Internal Service Fund	1,540,804	-	108,651	-	1,649,455
Total	<u>\$ 3,619,643</u>	<u>\$ 894,238</u>	<u>\$ 1,603,511</u>	<u>\$ 649</u>	<u>\$ 6,118,041</u>

The General Fund owes \$2,050,000 to the Deferred Maintenance Non-Major Governmental Fund for routine repair and maintenance.

The General Fund owes \$28,839 to the Cafeteria Non-Major Governmental Fund for excess collections of various payroll & operating costs and catering services.

The General Fund owes \$1,540,804 to the Internal Service Fund for workers' compensation and H&W benefit expenditures.

The Capital Project Fund for Blended Component Units owes \$894,238 to the General Fund for administrative costs.

The Adult Education Non-Major Governmental Fund owes \$254,000 to the General Fund for retiree benefits and indirect costs.

The Child Development Non-Major Governmental Fund owes \$186,923 to the General Fund for retiree benefits, miscellaneous operating costs, and indirect costs.

The Cafeteria Non-Major Governmental Fund owes \$126,241 to the General Fund for payroll, retiree benefits, and indirect costs.

The Special Reserve Fund for Capital Outlay Non-Major Governmental Fund owes \$425,000 to the General Fund for the reimbursement of lease costs.

The Special Reserve for Capital Outlay Non-Major Governmental Fund owes \$498,517 to the Capital Project Fund for Blended Component Units for reimbursement of debt service contribution.

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Operating Transfers

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 875,000	\$ 875,000
Capital Project Fund for Blended Component Units	-	-	5,048,650	\$ 5,048,650
Non-Major Governmental Funds	2,050,000	634,517	1,348,514	4,033,031
Total	<u>\$ 2,050,000</u>	<u>\$ 634,517</u>	<u>\$ 7,272,164</u>	<u>\$ 9,956,681</u>

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for routine repair and maintenance.	\$ 2,050,000
The Capital Project Fund for Blended Component Units transferred to the Debt Service Non-Major Governmental Fund for debt service payments.	634,517
The Special Reserve Fund for Capital Outlay Non-Major Governmental Fund transferred to the General Fund for the reimbursement of lease costs.	875,000
The County School Facilities Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for reimbursement of qualifying capital expenditures.	4,414,133
The Special Reserve Fund for Capital Outlay Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for the reimbursement of a temporary borrowing for debt service payments.	634,517
The Special Reserve Fund for Capital Outlay Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for debt service payments.	1,348,514
Total	<u>\$ 9,956,681</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Accounts payable at June 30, 2009, consisted of the following:

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General	Non-Major	
	Fund	Governmental	
		Funds	Total
Federal financial assistance	\$ 1,719,274	\$ -	\$ 1,719,274
State categorical aid	28,459	78,117	106,576
Other local	469,298	358,108	827,406
Total	\$ 2,217,031	\$ 436,225	\$ 2,653,256

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 8, 2008, the District issued \$43,000,000 Tax and Revenue Anticipation Notes bearing interest at 4.75 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2009. By May 2009, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$43,000,000 and related accrued interest and cash held in trust are not included in these financial statements.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
General obligation bonds	\$ 61,342,493	\$ 934,436	\$ 2,315,000	\$ 59,961,929	\$ 2,515,000
Premium on bonds	263,476	-	13,867	249,609	-
2002 Certificates of participation	26,170,000	-	700,000	25,470,000	730,000
Compensated absences	4,080,405	-	1,125,894	2,954,511	-
Capital leases payable	733,461	1,015,391	734,158	1,014,694	276,100
Supplemental early retirement plan (SERP)	2,822,419	-	2,103,240	719,179	323,902
Energy assistance loan	328,426	-	115,424	213,002	104,915
Developer fee agreement	1,101,825	-	208,646	893,179	-
Other postemployment benefits (OPEB)	2,723,700	4,707,632	-	7,431,332	-
Claims liability	8,308,771	1,321,701	2,500,747	7,129,725	2,500,747
Promissory note	6,000,000	-	-	6,000,000	6,000,000
	<u>\$ 113,874,976</u>	<u>\$ 7,979,160</u>	<u>\$ 9,816,976</u>	<u>\$ 112,037,160</u>	<u>\$ 12,450,664</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on the Certificates of Participation are made by the Debt Service Fund. Capital leases are paid by the General Fund, Child Development Fund, and Capital Facilities Fund. Payments on the Energy Assistance Loan and Developer Fee Agreement are made by the Capital Facilities Fund. The General Fund makes payments for the Supplemental Early Retirement Plan (SERP). The accrued vacation will be paid by the fund for which the employee worked.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding
				July 1, 2008	Accreted	Redeemed	June 30, 2009
2/2000	8/2024	5.00-6.25%	\$ 17,400,000	\$ 15,920,000	\$ -	\$ 385,000	\$ 15,535,000
2/2001	8/2025	4.00-5.10%	29,999,930	28,842,493	934,436	1,595,000	28,181,929
7/2002	8/2026	3.00-5.125%	17,600,000	16,580,000	-	335,000	16,245,000
				<u>\$ 61,342,493</u>	<u>\$ 934,436</u>	<u>\$ 2,315,000</u>	<u>\$ 59,961,929</u>

Election of 1999, General Obligation Bonds, Series A

In February 2000, the Capistrano Unified School District issued 1999 General Obligation Bonds, Series A in the amount of \$17,400,000. The bonds have a final maturity occurring on August 1, 2024, with interest rates ranging from 5.00 to 6.25 percent. The bonds were issued for the acquisition, construction and repair of schools. As of June 30, 2009, the principal balance outstanding was \$15,535,000.

Election of 1999, General Obligation Bonds, Series B

In February 2001, the Capistrano Unified School District issued both current and capital appreciation, 1999 General Obligation Bonds, Series B in the amount of \$29,999,930, accreting to \$52,550,000 at maturity. The bonds have a final maturity occurring on August 1, 2025, with interest rates ranging from 4.00 to 5.10 percent. The bonds were issued for the acquisition, construction and repair of schools. As of June 30, 2009, the principal balance outstanding was \$28,181,929.

Election of 1999, General Obligation Bonds, Series C

In July 2002, the Capistrano Unified School District issued 1999 General Obligation Bonds, Series C in the amount of \$17,600,000. The bonds have a final maturity occurring on August 1, 2026, with interest rates ranging from 3.00 to 5.125 percent. The bonds were issued for the acquisition, construction and repair of schools. As of June 30, 2009, the principal balance outstanding was \$16,245,000. Unamortized premium and issuance costs at June 30, 2008 were \$249,609 and \$211,852, respectively.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Debt Service Requirements to Maturity

The bonds mature through 2027 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Interest to Maturity	Total
2010	\$ 2,515,000	\$ -	\$ 2,097,564	\$ 4,612,564
2011	2,725,000	-	1,987,974	4,712,974
2012	2,940,000	-	1,866,524	4,806,524
2013	3,175,000	-	1,724,504	4,899,504
2014	3,440,000	-	1,562,014	5,002,014
2015-2019	16,656,245	4,203,755	6,390,798	27,250,798
2020-2024	19,618,981	8,431,019	3,549,759	31,599,759
2025-2027	8,891,703	3,643,297	408,513	12,943,513
Total	<u>\$ 59,961,929</u>	<u>\$ 16,278,071</u>	<u>\$ 19,587,650</u>	<u>\$ 95,827,650</u>

Certificates of Participation

In April 2002, the Capistrano Unified School District Facilities Corporation issued the 2002 Certificates of Participation in the amount of \$31,950,000, pursuant to a lease agreement between the Corporation and the District. Under the agreement, the District will lease certain District property to the Corporation and will lease the property back from the Corporation. The certificates have a final maturity occurring on December 1, 2026, with interest rates ranging from 2.10 to 5.25 percent. The certificates were issued to acquire and construct certain public capital improvements, including school ancillary support, classroom and swimming pool facilities. As of June 30, 2009, the principal balance outstanding was \$25,470,000. Unamortized issuance costs at June 30, 2009, were \$605,896.

The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 730,000	\$ 1,285,478	\$ 2,015,478
2011	885,000	1,251,615	2,136,615
2012	1,010,000	1,210,588	2,220,588
2013	1,060,000	1,164,518	2,224,518
2014	1,125,000	1,115,356	2,240,356
2015-2019	6,660,000	4,672,325	11,332,325
2020-2024	8,895,000	2,700,959	11,595,959
2025-2027	5,105,000	410,156	5,515,156
Total	<u>\$ 25,470,000</u>	<u>\$ 13,810,995</u>	<u>\$ 39,280,995</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$2,954,511.

Capital Leases

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

	Equipment
Balance, July 1, 2008	\$ 801,777
Additions	1,145,079
Payments	(780,901)
Balance, June 30, 2009	<u>\$ 1,165,955</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 330,846
2011	227,512
2012	216,339
2013	142,181
2014	49,816
2015-2019	<u>199,261</u>
Total	1,165,955
Less: Amount Representing Interest	<u>151,261</u>
Present Value of Minimum Lease Payments	<u>\$ 1,014,694</u>

Supplemental Early Retirement Plan (SERP)

The District adopted a Supplemental Early Retirement Plan (SERP), whereby certain eligible employees are provided an annuity through Public Agency Retirement Services (PARS) to supplement the retirement benefits they are entitled to through the California State Teacher's Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). The outstanding liability at June 30, 2009, amounted to \$719,179.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Energy Assistance Loan

During 2002, the District entered into an Energy Assistance Loan Agreement (Agreement) with the California Energy Commission (Commission). The Agreement was designed to provide financial assistance to help school districts implement energy projects, which can reduce energy costs. The Commission approved loans totaling \$1,014,243 to the Capistrano Unified School District for this purpose. The Agreement allowed the District to request reimbursement of expenditures for the District's energy projects. As of June 30, 2009, the District had an outstanding loan balance of \$213,002.

Developer Fee Agreement

The District has entered into an "Interim Fee Agreement" with S & S Construction, which establishes a credit bank for permits issued in the Country Village area. The credits issued will be applied to the land acquisition of the Laguna Niguel Elementary School site. Should the agreement be abandoned, the credit bank would be converted into actual fees. During 2001-2002, the District applied the credit bank towards the purchase of the school site in the County Village area. The credit bank was exhausted and a liability was established to reflect the balance due on the site purchase. S & S Construction will reduce the District's liability with future developer fee credits. As of June 30, 2009, the outstanding balance on the site purchase was \$893,179.

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2009, was \$6,329,222 and contributions made by the District during the year were \$1,589,032. The interest on net OPEB obligation and the adjustment to the annual required contribution were \$136,185 and \$168,743, respectively, which resulted in a net OPEB obligation of \$7,431,332. See Note 12 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

Claims Liability

Liabilities associated with workers' compensation claims and property and liability claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims and property and liability claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2009, amounted to \$7,129,725.

Promissory Note

On April 28, 2003, the District entered into an agreement for the purchase of real property to be used in conjunction with the constructing of the San Juan Hills High School. The District was required to deposit with the escrow holder a promissory note for the remaining purchase price balance to be paid of \$6,000,000. This balance, if not paid sooner, shall be due and payable on the fifth anniversary of the date hereof. As of June 30, 2009, the balance of \$6,000,000 remains outstanding.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$306,207,889 as of June 30, 2009, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 11 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Non-Major Governmental Funds
Reserved		
Revolving cash	\$ 175,000	\$ -
Stores inventories	220,121	-
Prepaid expenditures	508,906	-
Restricted programs	9,824,913	-
Total Reserved	<u>10,728,940</u>	<u>-</u>
Unreserved		
Designated		
Economic uncertainties	7,893,009	-
Cal-SAFE program	410,327	-
Instructional materials funds realignment program	409,579	-
Instructional materials - library materials	17,240	-
Discretionary block grant	86,428	-
Library abatement	79,696	-
Site allocation	249,490	-
Teacher development	51,737	-
Gift account	1,446,813	-
Arts and music block grant	379,668	-
Reserve for Proposition 98	5,874,961	-
Reserve for 2009/2010 budget cuts	1,490,000	-
Special revenue funds	-	13,104,349
Capital project funds	-	14,673,314
Total Designated	<u>18,388,948</u>	<u>27,777,663</u>
Undesignated	-	6,194,282
Total Unreserved	<u>18,388,948</u>	<u>33,971,945</u>
Total	<u>\$ 29,117,888</u>	<u>\$ 33,971,945</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Capistrano Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligible retirees are those individuals who retired on or after attaining the age of 53 for classified retirees or 55 for certificated retirees and have at least 10 years of service with the District. Benefits will continue for these retirees until they reach the age of 65. Membership of the Plan consists of 278 retirees and beneficiaries currently receiving benefits, 44 terminated plan members entitled to but not yet receiving benefits, and 3,690 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Capistrano Unified Education Association (CUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CUEA, CSEA and the unrepresented groups. For fiscal year 2008-09, the District contributed \$1,589,032 to the Plan, all of which was used for current premiums (approximately 66 percent of total premiums). Plan members receiving benefits contributed \$823,698, or approximately 34 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 6,329,222
Interest on net OPEB obligation	136,185
Adjustment to annual required contribution	(168,743)
Contributions made	<u>(1,589,032)</u>
Increase in net OPEB obligation	4,707,632
Net OPEB obligation, beginning of year	<u>2,723,700</u>
Net OPEB obligation, end of year	<u><u>\$ 7,431,332</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2008	\$ 3,704,106	26%	\$ 2,723,700
2009	6,329,222	25%	7,431,332

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

In the July 1, 2008, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial five percent to an ultimate rate of eleven percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2009, was 28 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - 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, 2009, the District contracted with Alliance of Schools Cooperative Insurance Programs (ASCIP) for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Excess Liability Fund (SELF) (through ASCIP). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the District retains the risk of loss (claims below the District's retained limits), are administered by the Self-Insurance Fund.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Workers' Compensation

Beginning in 2009, the District has established a fund to self-insure itself for workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through the purchase of commercial insurance.

Employee Medical Benefits

The District has contracted with the Metropolitan Employee Benefit Association (MEBA), an employee/employer benefits trust to provide employee medical and surgical benefits. MEBA obtains benefit programs on behalf of the District through the purchase of commercial insurance. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts.

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2007 to June 30, 2009 (in thousands):

	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2007	\$ 4,344,274	\$ 390,636	\$ 4,734,910
Claims and changes in estimates	5,438,469	750,616	6,189,085
Claims payments	(2,405,625)	(209,599)	(2,615,224)
Liability Balance, June 30, 2008	7,377,118	931,653	8,308,771
Claims and changes in estimates	631,122	690,579	1,321,701
Claims payments	(1,790,583)	(710,164)	(2,500,747)
Liability Balance, June 30, 2009	\$ 6,217,657	\$ 912,068	\$ 7,129,725
Assets available to pay claims at June 30, 2009	\$ 5,426,092	\$ 1,087,310	\$ 6,513,402

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$17,539,919, \$17,509,014, and \$16,640,334, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$5,155,812, \$5,407,685, and \$5,124,797, respectively, and equal 100 percent of the required contributions for each year.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Public Agency Retirement System (PARS)

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan. The District's contribution to PARS for the fiscal year ended June 30, 2009, was \$112,399.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$9,603,373 (4.517 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of ASCIP public entity risk pool and CLBROP and OCSELA joint powers authorities (JPA's). The District pays an annual premium to ASCIP for its property and liability and excess liability coverage. Payments for the District's regional occupational program and special education legal services are paid to the JPA's. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2009, the District made payments of \$1,414,320, \$3,049,477, and \$10,007 to ASCIP, CLBROP, and OCSELA, respectively for purposes described above.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$36,895,000 of Tax and Revenue Anticipation Notes dated September 1, 2009. The notes mature on September 29, 2010, and yield 2.0 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2009, until 100 percent of principal and interest due is on account in May 2010.

On July 28, 2009, the governor of California signed a package of bills amending the 2008-2009 and 2009-2010 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-2009 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-2010 to backfill \$1.5 billion of these cuts to repay the 2008-2009 reversion of the undistributed categorical program balances.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, the District has not recorded the revenue and related receivable associated with the District's portion of the unallocated, unexpended, or unliquidated categorical program balances identified in the July 2009 State Budget package.

NOTE 18 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

CAPISTRANO UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final	(GAAP Basis)	
REVENUES				
Revenue limit sources	\$ 305,878,807	\$ 293,484,136	\$ 282,607,618	\$(10,876,518)
Federal sources	18,328,861	43,328,447	38,584,182	(4,744,265)
Other State sources	74,404,803	75,237,957	77,944,922	2,706,965
Other local sources	8,334,669	10,627,853	9,915,884	(711,969)
Total Revenues ¹	406,947,140	422,678,393	409,052,606	(13,625,787)
EXPENDITURES				
Current				
Instruction	268,127,142	278,101,806	269,474,501	8,627,305
Instruction-related activities:				
Supervision of instruction	10,744,722	11,851,015	10,530,828	1,320,187
Instructional library, media, and technology	3,379,287	3,929,434	3,538,480	390,954
School site administration	27,984,860	28,098,619	29,132,585	(1,033,966)
Pupil services:				
Home-to-school transportation	8,687,006	9,723,938	10,302,779	(578,841)
Food services	-	200	300	(100)
All other pupil services	20,064,948	19,734,751	19,587,861	146,890
Administration:				
Data processing	3,164,995	2,580,651	2,515,278	65,373
All other administration	10,466,627	11,640,925	10,763,482	877,443
Plant services	28,664,360	30,653,875	30,384,332	269,543
Facility acquisition and construction	4,500	134,569	142,289	(7,720)
Ancillary services	3,689,863	3,692,752	3,684,038	8,714
Community services	-	5,897	592	5,305
Other outgo	8,916,014	8,803,865	8,883,819	(79,954)
Enterprise services	-	-	20,086	(20,086)
Debt service				
Principal	3,771,795	2,691,099	2,519,150	171,949
Interest	155,132	110,864	138,954	(28,090)
Total Expenditures ¹	397,821,251	411,754,260	401,619,354	10,134,906
Excess (Deficiency) of Revenues Over Expenditures	9,125,889	10,924,133	7,433,252	(3,490,881)
Other Financing Sources (Uses)				
Transfers in	3,400,000	900,000	875,000	(25,000)
Other sources	3,800,000	219,988	1,015,391	795,403
Transfers out	(2,050,000)	(2,050,000)	(2,050,000)	-
Net Financing Sources (Uses)	5,150,000	(930,012)	(159,609)	770,403
NET CHANGE IN FUND BALANCES	14,275,889	9,994,121	7,273,643	(2,720,478)
Fund Balance - Beginning	21,844,245	21,844,245	21,844,245	-
Fund Balance - Ending	\$ 36,120,134	\$ 31,838,366	\$ 29,117,888	\$ (2,720,478)

¹ On behalf payments of \$9,603,373 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

CAPISTRANO UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 1, 2006	\$ -	\$ 29,307,668	\$29,307,668	0%	\$ 270,340,132	11%
July 1, 2008	-	48,670,245	48,670,245	0%	267,291,252	18%

SUPPLEMENTARY INFORMATION

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Safe and Drug Free Schools and Communities - National Grants Cluster			
Emergency Response Plans for School Safety Initiative	84.184E	[1]	\$ 7,497
Safe Schools and Healthy Students Grants	84.184L	[1]	1,922,333
Subtotal - Safe and Drug Free Schools and Communities - National Grants Cluster			<u>1,929,830</u>
Funds for Improvement of Education Cluster			
Elementary and Secondary School Counseling Demonstration Program	84.215E	[1]	348,010
Foreign Language Assistance	84.293B	[1]	136,425
Indian Education	84.060A	[1]	77,231
Passed through California Department of Education (CDE):			
Adult Education and Family Literacy Act			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education & ESL	84.002A	14508	155,549
Family Literacy	84.002A	13977	117,675
Adult Secondary Education	84.002A	13978	45,853
Adult English Literacy and Civics Education	84.002A	14109	101,597
Subtotal - Adult Education - Basic Grants to States Cluster			<u>420,674</u>
No Child Left Behind Act (NCLB)			
Title II, Part D - Education Technology Grants Cluster			
Title II, Part D - Enhancing Education Through Technology Formula Grants	84.318	14334	33,151
Title II, Part D - Enhancing Education Through Technology Competitive Grants	84.318	14368	878,101
Subtotal - Title II, Part D - Education Technology Grants Cluster			<u>911,252</u>
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	2,731,744
Title I, Part B - Reading First Program	84.357	14328	516,337
Title I, Part B - Even Start Family Literacy Program	84.213	14331	157,414
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	3,835
Title II, Part A - Improving Teacher Quality	84.367	14341	1,101,257
American Reinvestment and Recovery Act (ARRA)			
State Fiscal Stabilization Funds	84.394	25008	9,519,335

[1] Direct-award, no PCA number

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through CDE:			
NCLB (continued)			
Title III, Part A - Limited English Proficient Student Program	84.365	10084	\$ 186,782
Title IV, Part A - Safe and Drug Free Schools	84.186	14347	92,690
Title V, Part A - Innovative Education Strategies	84.298A	14354	20,957
Title X - McKinney-Vento Homeless Assistance	84.196A	14332	110,000
Individuals with Disabilities Education Act (IDEA)			
Special Education Cluster			
Local Assistance Entitlement	84.027	13379	7,369,015
Preschool Grants	84.173A	13430	212,431
Preschool Local Entitlement	84.027A	13682	454,504
Preschool Staff Development	84.173A	13431	2,799
ARRA Part B, Section 611 - Basic Local Assistance	84.391	15003	1,992,007
Subtotal - Special Education Cluster			<u>10,030,756</u>
Early Intervention Grants	84.181	23761	51,074
Carl D. Perkins Vocational and Technical Education Act			
Secondary Education	84.048A	14894	220,431
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.158	10006	454,691
Tech Prep Grant	84.000	010307	19,500
Subtotal - U.S. Department of Education			<u>29,040,225</u>
SOCIAL SECURITY ADMINISTRATION			
Passed through California Department of Rehabilitation:			
Bridges to Youth Self-Sufficiency	96.007	10097	49,547
Subtotal - Social Security Administration			<u>49,547</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Billing Options	93.778	10013	617,286
Passed through Orange County Department of Education (OCDE):			
Medi-Cal Administrative Activities	93.778	10060	920,018
Subtotal - Medi-Cal Assistance Program Cluster			<u>1,537,304</u>

[1] Direct-award, no PCA number

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through CDE:			
Child Care and Development Fund Cluster			
Quality Improvement Activities	93.575	13979	\$ 3,506
School-Age Child Care Resource Contracts	93.575	13941	2,029
Infant/ Toddler Child Care Resource Contracts	93.575	13942	2,721
Subtotal - Child Care and Development Fund Cluster			8,256
Subtotal - U.S. Department of Health and Human Services			1,545,560
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Program Cluster			
National School Lunch Program	10.555	13396	3,362,359
Basic School Breakfast Program	10.553	13390	292,873
Especially Needy Breakfast Program	10.553	13526	290,292
Seamless Summer Food Program	10.559	13004	97,122
Commodities	10.555	[1]	352,860
Subtotal - Child Nutrition Program Cluster			4,395,506
Passed through OCDE:			
Forest Reserve Fund	10.665	10044	5,364
California Nutrition Network	10.561	05-45525	141,149
Subtotal - U.S. Department of Agriculture			4,542,019
Total Expenditures of Federal Awards			\$35,177,351

[1] Direct-award, no PCA number

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2009

ORGANIZATION

The Capistrano Unified School District was unified in 1965 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates thirty six elementary schools, eleven middle schools, two kindergarten through eighth grade schools, six high schools, one continuation high school, one adult school and an independent study program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ellen M. Addonizio	President	2010
Michael S. Winsten	Vice President	2012
Larry J. Christensen	Clerk	2010
Jack R. Brick	Member	2012
Anna Bryson	Member	2010
Ken Lopez Maddox	Member	2012
Sue Palazzo	Member	2012

ADMINISTRATION

Dr. Roberta "Bobbi" Mahler	Interim Superintendent
Naomi Suenaka	Interim Deputy Superintendent, Personnel Services
Sherine Smith	Deputy Superintendent, Education
Ron Lebs	Deputy Superintendent, Business and Support Services
Kristofer Pitman	Executive Director, Fiscal Services
Julie Hatchel	Chief Communications Officer

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2009

	Revised Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	3,464	3,460
First through third	11,104	11,102
Fourth through sixth	11,387	11,373
Seventh and eighth	7,549	7,521
Home and hospital	4	5
Special education	721	721
Total Elementary	34,229	34,182
SECONDARY		
Regular classes	14,897	14,783
Continuation education	155	157
Home and hospital	8	10
Community day school	10	11
Special education	393	381
Students 21 and over and 19 or older not continuously enrolled since their 18th birthday, enrolled in K-12 through independent study	41	39
Total Secondary	15,504	15,381
Total K-12	49,733	49,563
REGIONAL OCCUPATIONAL PROGRAM	859	995
CLASSES FOR ADULTS		
Concurrently enrolled	50	55
Not concurrently enrolled	789	789
Total Classes for Adults	839	844
Grand Total	51,431	51,402
		Hours of Attendance
SUMMER SCHOOL		
Elementary		313,483
High school		159,168
Total Hours		472,651

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2009

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,162	180	-	Complied
Grades 1 - 3	45,340	50,400				
Grade 1	-	-	51,016	180	-	Complied
Grade 2	-	-	51,016	180	-	Complied
Grade 3	-	-	51,016	180	-	Complied
Grades 4 - 6	53,356	54,000				
Grade 4	-	-	54,050	180	-	Complied
Grade 5	-	-	54,050	180	-	Complied
Grade 6	-	-	60,404	180	-	Complied
Grades 7 - 8	53,245	54,000				
Grade 7		-	60,404	180	-	Complied
Grade 8	-	-	60,404	180	-	Complied
Grades 9 - 12	58,998	64,800				
Grade 9	-	-	64,836	180	-	Complied
Grade 10	-	-	64,836	180	-	Complied
Grade 11	-	-	64,836	180	-	Complied
Grade 12	-	-	64,836	180	-	Complied

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2009, Unaudited Actuals	\$ 35,911,399
Decrease in:	
Accounts receivable ¹	<u>(6,793,511)</u>
Balance, June 30, 2009, Audited Financial Statement	<u>\$ 29,117,888</u>

¹ The adjustment is for the ABX4 3 un-appropriated state categorical programs as described in Note 17.

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget) 2010 ¹	2009	2008	2007
GENERAL FUND				
Revenues	\$ 347,678,185	\$ 409,052,606	\$ 407,572,265	392,516,481
Other sources	6,592,298	1,890,391	30,597	2,300,000
Total Revenues and Other Sources	354,270,483	410,942,997	407,602,862	394,816,481
Expenditures	381,716,882	401,619,354	407,999,515	382,901,029
Other uses and transfers out	-	2,050,000	2,091,129	1,750,000
Total Expenditures and Other Uses	381,716,882	403,669,354	410,090,644	384,651,029
INCREASE (DECREASE) IN FUND BALANCE	\$ (27,446,399)	\$ 7,273,643	\$ (2,487,782)	\$ 10,165,452
ENDING FUND BALANCE	\$ 8,465,000	\$ 29,117,888	\$ 21,844,245	\$ 24,332,027
AVAILABLE RESERVES ²	\$ 7,965,000	\$ 7,893,009	\$ 8,347,089	\$ 8,846,355
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.09%	2.00%	2.08%	2.30%
LONG-TERM OBLIGATIONS	N/A	\$ 112,037,160	\$ 113,874,976	\$ 112,850,953
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	49,737	49,733	49,211	48,730

The General Fund balance has increased by \$4,785,861 over the past two years. The fiscal year 2009-2010 budget projects a decrease of \$27,446,399. For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in two of the past three years, but anticipates incurring an operating deficit during the 2009-2010 fiscal year. Total long-term obligations have decreased by \$813,793 over the past two years.

Average daily attendance has increased by 1,003 over the past two years. Additional growth of four ADA is anticipated during fiscal year 2009-2010.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all funds designated for economic uncertainty contained within the General Fund

³ On behalf payments of \$9,603,373, and \$9,586,450 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2009 and 2008, respectively.

⁴ Excludes Adult Education and ROP ADA.

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2009

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Journey Charter School	No
Opportunity for Learning Charter School	No
Capistrano Connections Academy	No

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2009

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Postemployment Benefits
ASSETS					
Deposits and investments	\$ 2,336,567	\$ 1,867,067	\$ 2,084,350	\$ 5,187,157	\$ 323,434
Receivables	536,298	428,405	813,364	5,507	367
Due from other funds	-	-	32,142	2,050,000	-
Stores inventories	-	-	178,134	-	-
Total Assets	\$ 2,872,865	\$ 2,295,472	\$ 3,107,990	\$ 7,242,664	\$ 323,801
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 422,512	\$ 402,910	\$ 770,772	\$ 105,907	\$ 28
Due to other funds	261,192	217,871	194,582	4,561	-
Deferred revenue	-	149,015	209,093	-	-
Total Liabilities	683,704	769,796	1,174,447	110,468	28
Fund Balances:					
Unreserved:					
Designated	2,189,161	1,525,676	1,933,543	7,132,196	323,773
Undesignated, reported in:					
Debt service funds	-	-	-	-	-
Total Fund Balance	2,189,161	1,525,676	1,933,543	7,132,196	323,773
Total Liabilities and Fund Balances	\$ 2,872,865	\$ 2,295,472	\$ 3,107,990	\$ 7,242,664	\$ 323,801

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 5,710,983	\$ 3,916,516	\$ 2,330,682	\$ 3,886,415	\$ 3,405,540	\$ 2,769,525	\$ 33,818,236
6,494	6,922	2,640	4,938	4,082	15,135	1,824,152
-	-	-	-	-	-	2,082,142
-	-	-	-	-	-	178,134
<u>\$ 5,717,477</u>	<u>\$ 3,923,438</u>	<u>\$ 2,333,322</u>	<u>\$ 3,891,353</u>	<u>\$ 3,409,622</u>	<u>\$ 2,784,660</u>	<u>\$ 37,902,664</u>
\$ 44,263	\$ 144,022	\$ 198	\$ 371	\$ -	\$ -	\$ 1,890,983
-	1,788	-	923,517	-	-	1,603,511
-	-	-	78,117	-	-	436,225
<u>44,263</u>	<u>145,810</u>	<u>198</u>	<u>1,002,005</u>	<u>-</u>	<u>-</u>	<u>3,930,719</u>
5,673,214	3,777,628	2,333,124	2,889,348	-	-	27,777,663
-	-	-	-	3,409,622	2,784,660	6,194,282
<u>5,673,214</u>	<u>3,777,628</u>	<u>2,333,124</u>	<u>2,889,348</u>	<u>3,409,622</u>	<u>2,784,660</u>	<u>33,971,945</u>
<u>\$ 5,717,477</u>	<u>\$ 3,923,438</u>	<u>\$ 2,333,322</u>	<u>\$ 3,891,353</u>	<u>\$ 3,409,622</u>	<u>\$ 2,784,660</u>	<u>\$ 37,902,664</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Postemployment Benefits
REVENUES					
Revenue limit sources	\$ 1,761,957	\$ -	\$ -	\$ -	\$ -
Federal sources	420,674	8,256	4,536,655	-	-
Other State sources	-	2,773,324	306,551	1,712,444	-
Other local sources	1,572,188	3,150,465	7,174,314	77,180	6,406
Total Revenues	3,754,819	5,932,045	12,017,520	1,789,624	6,406
EXPENDITURES					
Current					
Instruction	1,521,098	3,799,511	-	-	-
Instruction-related activities:					
Supervision of instruction	202,237	896,633	-	-	-
School site administration	487,104	598,738	-	-	-
Pupil services:					
Food services	-	41,357	10,949,798	-	-
All other pupil services	59,732	314,725	-	-	-
Administration:					
All other administration	100,451	180,198	323,332	-	-
Plant services	-	148,506	-	1,043,608	-
Facility acquisition and construction	-	-	-	52,463	-
Community services	-	126,839	-	-	-
Other outgo	-	-	-	-	-
Enterprise services	1,402,589	-	-	-	-
Debt service					
Principal	-	47,227	-	-	-
Interest and other	-	12,512	-	-	-
Total Expenditures	3,773,211	6,166,246	11,273,130	1,096,071	-
Excess (Deficiency) of Revenues Over Expenditures	(18,392)	(234,201)	744,390	693,553	6,406
Other Financing Sources (Uses)					
Transfers in	-	-	-	2,050,000	-
Transfers out	-	-	-	-	-
Net Financing Sources (Uses)	-	-	-	2,050,000	-
NET CHANGE IN FUND BALANCES	(18,392)	(234,201)	744,390	2,743,553	6,406
Fund Balance - Beginning	2,207,553	1,759,877	1,189,153	4,388,643	317,367
Fund Balance - Ending	\$ 2,189,161	\$ 1,525,676	\$ 1,933,543	\$ 7,132,196	\$ 323,773

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,761,957
-	-	-	-	-	-	4,965,585
-	-	4,414,133	-	33,981	-	9,240,433
122,983	1,205,324	197,474	3,592,461	4,455,094	294,665	21,848,554
122,983	1,205,324	4,611,607	3,592,461	4,489,075	294,665	37,816,529
-	-	-	-	-	-	5,320,609
-	-	-	-	-	-	1,098,870
-	-	-	-	-	-	1,085,842
-	-	-	-	-	-	10,991,155
-	-	-	-	-	-	374,457
-	-	-	-	-	-	603,981
-	-	-	-	-	-	1,192,114
391,727	2,659,528	2,321,358	3,957	-	-	5,429,033
-	-	-	-	-	-	126,839
-	-	-	33,652	-	-	33,652
-	-	-	-	-	-	1,402,589
-	595,091	-	-	2,315,000	700,000	3,657,318
-	9,468	-	-	2,198,239	1,277,629	3,497,848
391,727	3,264,087	2,321,358	37,609	4,513,239	1,977,629	34,814,307
(268,744)	(2,058,763)	2,290,249	3,554,852	(24,164)	(1,682,964)	3,002,222
-	-	-	-	-	1,983,031	4,033,031
-	-	(4,414,133)	(2,858,031)	-	-	(7,272,164)
-	-	(4,414,133)	(2,858,031)	-	1,983,031	(3,239,133)
(268,744)	(2,058,763)	(2,123,884)	696,821	(24,164)	300,067	(236,911)
5,941,958	5,836,391	4,457,008	2,192,527	3,433,786	2,484,593	34,208,856
\$ 5,673,214	\$ 3,777,628	\$ 2,333,124	\$ 2,889,348	\$ 3,409,622	\$ 2,784,660	\$ 33,971,945

CAPISTRANO UNIFIED SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

(Amounts in thousands, excluding
Revenue Limit Per ADA)

	Actual Results for the Years					
	2008-2009		2007-2008		2006-2007	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 38,584	9.4	\$ 19,856	4.9	\$ 18,609	4.7
State and local revenue included in revenue limit	282,608	69.1	285,903	70.1	276,460	70.5
Other State revenue	77,945	19.1	89,309	21.9	85,350	21.7
Other local revenue	9,916	2.4	12,504	3.1	12,097	3.1
Total Revenues	<u>409,053</u>	<u>100.0</u>	<u>407,572</u>	<u>100.0</u>	<u>392,516</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	208,877	51.1	208,248	51.1	198,228	50.5
Classified salaries	58,276	14.2	61,851	15.6	60,845	15.5
Employee benefits	82,917	20.3	80,085	19.6	66,106	16.8
Total Salaries and Benefits	350,070	85.6	350,184	86.3	325,179	82.8
Books and supplies	11,776	2.9	16,281	4.0	14,387	3.7
Contracts and operating expenses	27,895	6.8	30,254	7.4	27,575	7.0
Capital outlay	960	0.2	255	0.1	359	0.1
Other outgo	10,918	2.7	11,025	2.7	15,401	3.9
Total Expenditures	<u>401,619</u>	<u>98.2</u>	<u>407,999</u>	<u>100.5</u>	<u>382,901</u>	<u>97.5</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,434	1.8	(427)	(0.5)	9,615	2.5
OTHER FINANCING SOURCES (USES)						
Net financing sources (uses)	<u>(160)</u>	<u>(0.0)</u>	<u>(2,061)</u>	<u>(0.5)</u>	<u>550</u>	<u>0.1</u>
INCREASE (DECREASE) IN FUND BALANCE	7,274	<u>1.8</u>	(2,488)	<u>(1.0)</u>	10,165	<u>2.6</u>
FUND BALANCE, BEGINNING	<u>21,844</u>		<u>24,332</u>		<u>14,167</u>	
FUND BALANCE, ENDING	<u>\$ 29,118</u>		<u>\$ 21,844</u>		<u>\$ 24,332</u>	
BASE REVENUE LIMIT PER ADA, AS DEFICIT						
Regular	<u>\$ 5,633</u>		<u>\$ 5,783</u>		<u>\$ 5,531</u>	

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

CAFETERIA FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

(Dollar amounts in thousands)

	Actual Results for the Years					
	2008-2009		2007-2008		2006-2007	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal	\$ 4,537	37.7	\$ 4,193	35.7	\$ 3,258	29.8
State meal program	307	2.6	304	2.6	238	2.2
Food sales	7,099	59.1	7,134	60.8	7,218	66.1
Other	75	0.6	107	0.9	208	1.9
Total Revenues	<u>12,018</u>	<u>100.0</u>	<u>11,738</u>	<u>100.0</u>	<u>10,922</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	5,507	48.3	5,668	48.3	5,434	49.8
Food	4,657	42.8	5,028	42.8	4,470	40.9
Supplies	96	0.7	88	0.7	263	2.4
Other	1,013	6.6	779	6.6	1,146	10.5
Total Expenditures	<u>11,273</u>	<u>98.4</u>	<u>11,563</u>	<u>98.4</u>	<u>11,313</u>	<u>103.6</u>
INCREASE (DECREASE) IN FUND BALANCE	745	<u>1.6</u>	175	<u>1.6</u>	(391)	<u>(3.6)</u>
FUND BALANCE, BEGINNING	<u>1,189</u>		<u>1,014</u>		<u>1,405</u>	
FUND BALANCE, ENDING	<u>\$ 1,934</u>		<u>\$ 1,189</u>		<u>\$ 1,014</u>	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2008-2009		2007-2008		2006-2007	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	1,618,091	57.0	1,984,566	65.1	2,131,529	67.6
Reduced price	253,060	8.9	252,370	8.3	237,853	7.5
Free	969,420	34.1	810,710	26.6	786,065	24.9
Total Lunches	<u>2,840,571</u>	<u>100.0</u>	<u>3,047,646</u>	<u>100.0</u>	<u>3,155,447</u>	<u>100.0</u>
BREAKFAST						
Paid	161,422	29.7	202,428	37.7	196,208	44.0
Reduced price	48,032	8.9	46,624	8.7	33,607	7.5
Free	333,417	61.4	287,789	53.6	216,586	48.5
Total Breakfast	<u>542,871</u>	<u>100.0</u>	<u>536,841</u>	<u>100.0</u>	<u>446,401</u>	<u>100.0</u>

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 43,549,767
ARRA - State Fiscal Stabilization Funds	84.394	(8,139,475)
Medi-Cal Billing Option	93.778	(232,941)
Total Schedule of Expenditures of Federal Awards		<u>\$ 35,177,351</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Amount Provided to Subrecipients
Title II, Part A - Improving Teacher Quality	84.367	\$ 76,760
Title IV, Part A - Safe and Drug Free Schools	84.186	2,464
		<u>\$ 79,224</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Capistrano Unified School District as of and for the year ended June 30, 2009, which collectively comprise Capistrano Unified School District's basic financial statements and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Capistrano Unified School District in a separate letter dated December 14, 2009.

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

VAUZINX TRINE, Day & Co, LLP

Rancho Cucamonga, California
December 14, 2009



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

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

Compliance

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

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

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

Internal Control Over Compliance

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

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

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

VAURANSK, TRINOS, Duff & Co, LLP

Rancho Cucamonga, California
December 14, 2009



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Capistrano Unified School District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Capistrano Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Capistrano Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	3	No, See Below
Instructional Materials general requirements	8	Yes, See Below
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes

	Procedures in Audit Guide	Procedures Performed
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform testing for Community Day School because the ADA was below the required threshold for testing. In addition, we only performed testing of procedure (a) for the Instructional Materials general requirements, as additional procedures were not determined to be required.

Based on our audit, we found that for the items tested, the Capistrano Unified School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Capistrano Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Capistrano Unified School District's compliance with the State laws and regulations referred to above.

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

VANDERKAM, TRW, DA-1-40, LP

Rancho Cucamonga, California
December 14, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic Grants Low Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>84.394</u>	<u>ARRA - State Fiscal Stabilization Fund</u>
<u>84.027, 84.027A, 84.173A, 84.391</u>	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,055,321</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2009-1 40000

Criteria or Specific Requirements

Requirement: Minimum Hours of Operation

Education Code Section 8483(a)(1) states that every after-school component of a program established pursuant to this article shall commence immediately upon conclusion of the regular school day, and operate a minimum of 15 hours per week, and remain open until at least 6:00 p.m. on every regular school day. In addition, every after school component of the program shall establish a policy regarding reasonable early-daily-release of pupils from the program.

Education Code Section 8483(a)(2) It is the intent of the Legislature that elementary school pupils participate in the full day of the program every day during which pupils participate.

Condition

It appears that the District is operating the program only until 5:30 p.m. at one of its three participating sites, Las Palmas Elementary School. As a result, students are not able to participate in the full day as mandated by the minimum hours of operation requirement.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through a review of the District's program brochures and enrollment packets and inquiry with site administrators.

Effect

As a result of the site not operating until the required time as mandated by the state, students are not able to participate in the "full day" requirement as identified in the State Audit Guide.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

Cause

The District operates the program for a minimum of 15 hours a week commencing immediately upon the conclusion of the regular school day; however, the District does not operate until 6:00 p.m. every regular school day. Per inquiry with the program administrators, the site is aware of the minimum hour requirement. However, due to a very small interest by parents and safety issues of students and parents walking after sunset, site administrators have chosen to close the program at 5:30 p.m. every day.

Recommendation

The auditor recommends that the District change the hours of operation at Las Palmas' Piper Club to operate until 6:00 p.m. To address the safety concerns for students that walk home, the site may revise its early release policy to allow early release for these students. For all other students, the site should keep the program available and open for students until 6:00 p.m.

District Response

The District will modify the operational hours of the Las Palmas' Piper Club to meet the requirements set forth in the State Audit Guide and *Education Code* Section 8483(a)(1), which requires after school programs to operate for a minimum of 15 hours per week, and until at least 6:00 p.m. on regular school days. Additionally, the District will review and modify, as appropriate, the early release policy to address the safety concerns for students who walk home.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2008-1 40000

After School Education and Safety Program - in-kind contributions

Criteria or Specific Requirements

Local Education Agencies are required to contribute cash or in-kind funds, equal to not less than one-third of the total State grant, which may have originated from the District, other governmental agencies, community organizations, or the private sector. Facilities or space usage may fulfill not more than 25 percent of the required local contribution. The period of time to collect the matching funds is the dates included in your grant award. This period will begin July 1 and end the following June 30 (*Education Code* Section 8483.7 (a)(1)(A)(5)). Grantees must keep records documenting the amount and contributor of the match for a period of at least five years for audit and monitoring purposes

Condition

The District has provided a summary of the in-kind contributions, however supporting documentation for the amounts reported on the summary have not been provided and thus the auditor has not been able to confirm if the reported in-kind contributions are in compliance with the requirements.

Questioned Costs

There is no questioned cost component to the condition identified.

Context

The condition identified was determined by obtaining the documentation of the in-kind contributions. Although the summary appears reasonable, the auditor has requested additional information to support the summarized amounts and has not yet been able to obtain such documentation.

Effect

Provisions of the program did not identify specific financial consequences that the District would face as a result of the condition identified. However, it appears that the result of the unsubstantiated in-kind contribution would cause the District to be out of compliance with the general program requirements.

Cause

The cause of the condition identified is not known.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Recommendation

The District should consider implementing monitoring procedures over the After School Education and Safety Program to include obtaining periodic updates on required in-kind contributions from the program operator to ensure the District is in compliance with the requirements.

Current Status

Implemented.

2008-2 40000

After School Education and Safety Program - Administrative Costs

Criteria or Specific Requirements

According to Education Code Section 8483.9 (b) a program grantee receiving funding may expend no more than 15 percent of the funding for administrative costs. Under the general requirements of the After School Education and Safety program, the District cannot expend more than 15 percent of the State funding for administrative costs, including indirect costs charged to the program.

Condition

During the audit over the District's administrative costs charged to the program, it was determined that the District exceeds the maximum allowed by the program. The District is currently charging 19 percent of total expenditures for administrative costs.

Questioned Costs

Based on the auditor's recalculation of administrative costs charged to the program, it appears the District may have overcharged the program \$12,423 in administrative costs.

Context

The condition identified was determined through inquiry with District personnel, review of the vendor master contract and invoices paid by the District. The auditor reviewed the payroll costs incurred by the vendor and subsequent payroll billings directed to the District. In addition, the auditor reviewed internal payroll reports for administrative District personnel charged to resource 6010. The auditor added all administrative costs and compared the total administrative cost to total program expenditures.

Effect

As a result of the District not accounting for the administrative costs incurred by the third party vendor, the District has exceeded their allowable administrative cost cap of 15 percent. When administrative costs of the third party vendor are accounted for, the total administrative costs incurred by the District represent 19 percent of the total expenditures for the program.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Cause

The cause of the condition identified is not known.

Recommendation

The District should establish communication with its third party service providers and implement a monitoring procedure to ensure that the District understands the amount of administrative costs incurred by third party service providers. The District should identify the total administrative costs incurred by the program to determine if the District has exceeded the maximum administrative costs allowable by the program, including those costs billed by the third party.

Current Status

Implemented.

2008-3 72000

School Accountability Report Cards

Criteria or Specific Requirements

Schools are required to have annual facilities inspection. Specifically, State law requires that the annual facility inspection be reflected on the School Accountability Report Card (SARC) in accordance with Section 33126(b) of the Education Code. LEAs should ensure that information concerning school facility conditions and the "good repair status" of facilities should use the most recent available data collected by the LEA. The year and month in which the data were collected should also be identified.

Condition

The District was unable to provide supporting documentation for annual facilities inspections on 3 out of 11 school sites selected for testing. District personnel assert that inspections were performed, however, supporting documentation seem to have been misplaced.

Questioned Costs

There were no questioned costs associated with the condition found.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Context

The condition identified was determined based on testing of published school accountability report cards from eleven sites throughout the District. The auditor selected eleven sample sites from a total of fifty eight sites at the District based on attendance testing performed during interim audit dates. For the sample sites selected, the auditor requested copies of interim evaluation instruments, however was unable to obtain them for three out of eleven sites tested. As a result, the auditor was unable to determine if the published data on the SARC was accurate regarding facility conditions.

Effect

Provisions of the program did not identify specific financial consequences that the District would face as a result of the condition identified. However, it appears that as a result of the District not performing annual inspections on facilities would result in the District not being in compliance with the general program requirements.

Cause

The cause of the condition identified is not known.

Recommendation

The District should implement a procedure to inspect school facilities on an annual basis using the Office of Public Schools Construction Interim Evaluation Tool. In addition, facility inspections should be accurately transcribed to the school accountability report cards and documentation of such inspections should be kept for audit purposes.

Current Status

Implemented



Governing Board
Capistrano Unified School District
San Juan Capistrano, California

In planning and performing our audit of the financial statements of Capistrano Unified School District for the year ended June 30, 2009, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2009, on the financial statements of Capistrano Unified School District.

INTERNAL CONTROLS

Self-Insurance - Workers Compensation

Observation

Previously, the District recorded claims liability associated with the worker's compensation self-insurance activity based on loss runs reports as provided by the claims administrator. The claims liability is now actuarially determined, and includes a component for the estimated accrued but unfunded cost of claims liability, as required by *Education Code* Section 42141. As a result, the claims liability recorded within the sub-fund of Fund 67 related to workers' compensation self-insurance has increased substantially. During the 2008-09 fiscal year, approximately \$2.6 million in contributions were designated from the worker's compensation fund to the general fund, in order to offset State revenue reductions and to ensure fiscal solvency. The combination of these two events resulted in a deficit ending balance within this sub-fund of approximately \$1.1 million dollars.

Recommendation

California State Accounting Manual procedure 775 states "The use of an internal service fund is not appropriate for activities that a local educational agency (LEA) only partially intends to finance through fees and charges." Accordingly, the District should monitor the contribution percentage charged to ensure sufficient funds have been collected to finance this activity. The District should refer to the "recommended minimum loss funding" rate that has been actuarially determined to provide a level of guidance for an appropriate funding rate.

Payroll and Personnel Procedures – Bank Reconciliation

Observation

During our review of the District's payroll revolving bank reconciliation, we noted a total of 14 stale dated checks totaling \$8,179.27. In addition, while reviewing the fund reconciliation back to the \$75,000 imprest amount, we noted various unresolved outstanding items awaiting reimbursement. The majority of the outstanding items were stale dated, dating back to July of 2005. It also appears as though some of the outstanding items are representative of the fund reconciliation being over-reimbursed.

Recommendation

The District should review all stale dated checks and outstanding items awaiting reimbursement to determine the validity of the amounts. In addition, designated personnel should perform a monthly review of the bank and account reconciliations to ensure account balances are accurate and errors are identified and resolved in a timely manner. The reviewer should provide guidance to staff on how to clear stale dated items from the reconciliation. This person should then initial and date the bank reconciliation as evidence that it was reviewed.

Capital Assets

Observation

Inventory tracking procedures over fixed assets and equipment do not include a periodic physical inventory of items maintained at sites and departments. Currently, District procedures rely on sites and departments to communicate any items that have been disposed of.

Recommendation

The District should consider implementing a physical inventory of fixed assets and equipment on a periodic basis, such as annually. This would assist in determining if all items reported on the fixed asset listing exist. The District could rotate which sites must inventory their assets each year so as to reduce the workload involved with conducting the physical count and making adjustments to the fixed asset listing. Once the physical inventory is conducted, items reported should be compared to the fixed asset listing and any items identified as not existing at the site, but are currently included on the fixed asset listing, should be deleted from the listing.

ASSOCIATED STUDENT BODY

Observation

During the review of the District's accounts receivable it was noted that various District Associated Student Bodies (ASBs) owed the District for services provided. In reviewing the ASBs it was noted that the corresponding liabilities owed to the District were not established by the ASBs resulting in an understatement of the ASB's liabilities.

Recommendation

The Associated Student Body Manual established by the Fiscal Crisis and Management Assistance Team (FCMAT) states that each ASB is required to close their books each fiscal year. The closing should include the payment of all outstanding goods and services received. Additionally, the ASB should contact the vendor, which includes the District, for any purchase orders that are still outstanding; obtain an invoice for purchase orders that have been delivered by the vendor but not invoiced and pay the invoices. The ASB must also prepare the financial statements for the year. The preparation of the balance sheet includes establishing a liability for any goods and services received in the current year not yet paid.

Arroyo Vista Middle School

Disbursements

Observation

It was noted that the site has a procedure to approve open purchase orders for an amount not to exceed a club's balance instead of approving the purchase order specific to an activity, event or vendor.

Recommendation

Open purchase orders should not be approved for such an indefinable amount. Instead, the site should approve purchase orders that are specific to an event or fundraiser. The site should track and monitor expenditures made for specific events or to specific vendors for a specific purpose.

Carl Hankey Middle School

Observations

During our follow-up from the prior year audit of ASB internal controls, we noted the following issues remain:

1. None of the nine expenditures reviewed were pre-approved by the student council.
2. Two out of nine ASB disbursements were made without explicit receiving documentation for goods being ordered. As a result, vendor invoices were paid without the direct knowledge of whether or not the goods ordered have been received by the ASB.
3. All of the expenditures tested did not have all the required signatures of approval. The site does not have a procedure to utilize payment request forms for expenditures. As a result, the site does not have the ability to provide supporting documentation that indicates authorizations have been obtained.
4. Nine out of nine sample disbursements lacked the required second signature on the check for the disbursement to take place.
5. During our audit of the ASB's internal controls over receipting, it was noted that receipts are not being issued by teachers at the time monies are being collected from students and/or parents/guardians.
6. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendations

1. All ASB disbursements should be approved by the students before the expenditure takes place. This ensures proper funding is available and that disbursements are only made for student approved items.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received, and whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. The site should review the cash disbursement procedures outlined in the California Department of Education's manual titled, "Accounting and Procedures for Student Organizations." The manual explains that three signatures, including a District representative, a student representative and an advisor, are required pursuant to California Educational Code Section 48933(5) (b) on all disbursements from a student body account. The approvals should be documented through the use of a payment/check request form.
4. Checks should not be issued without two signatures of approval. This is a vital control that should be implemented to ensure that all expenditures made from ASB funds are appropriate.
5. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and Administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in. A receipt should be issued back to the teacher as proof that the monies were deposited intact.
6. As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

Aliso Viejo Middle School

Cash Receipting

Observation

During our review of the receipting process, it was noted that receipts are being generated in duplicate for PE clothing sales and donations. As a result, the receipts do not reconcile to the bank deposits.

Recommendation

The site should implement a supplemental receipt book to receipt cash received from PE clothes sales and donations. A receipt from the master receipt book can be then be generated to forward to the ASB club advisor.

Governing Board
Capistrano Unified School District

Aliso Viejo Middle School

Cash Disbursements

Observation

During our review of internal controls over cash disbursements it was noted that three of the twelve disbursements tested lacked receiving documentation.

Recommendation

All expenditures should indicate whether the items purchases have been received. This can be noted with a stamp, signature, packing slip, etc. This reduces the risk of items being paid for but not received.

Aliso Viejo Middle School

Ticket Sales Report

Observation

During our review of internal controls over ticket sales, it was noted that although a ticket sales report is used, the site does not reconcile the ticket sales to the cash receipts generated for the event.

Recommendation

A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. Cash receipts generated from the deposit of cash should reconcile to the ticket sales form. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.

Aliso Viejo Middle School

PE Clothing Inventory

Observation

The site does not maintain an inventory of the PE clothing purchased or sold, therefore no accountability exists for the inventory.

Recommendation

According to the policies and procedures outlined in the “Accounting Procedures for Student Body Organizations”, prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the Vice Principal or Principal. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Aliso Viejo Middle School

Bank Reconciliation

Observation

During our review of the site’s bank reconciliation process, it was noted the monthly bank reconciliation is not independently reviewed prior to being sent to the District office.

Recommendation

Bank reconciliations should be reviewed by the ASB advisor or the site principal prior to being sent to the District office. In order for this to be an effective control, it is important that the prepared bank reconciliation be reviewed by an administrative employee who has knowledge of the ASB activities.

Bernice Ayer Middle School

Observations

During our review of the site’s ASB internal control processes, we noted the following issues:

1. Monthly bank reconciliations are not independently reviewed prior to being sent to the District office.
2. One out of ten expenditures reviewed was not an appropriate expenditure for student body funds. Student body funds are for the benefit of the students and/or their organizations. The school site purchased refreshments for the site’s staff development day, which does not directly benefit the students or their organizations and is explicitly listed as prohibited in the Fiscal Crisis Management Assistance Team (FCMAT) Manual.

Recommendations

1. Bank reconciliations should be reviewed by the ASB advisor or the site principal prior to being sent to the District office. The reviewer should sign the reconciliation acknowledging the accuracy of the reconciliation. In order for this to be an effective control, it is important that the prepared bank reconciliation be reviewed by an administrative employee, who has knowledge of the ASB activities.
2. Funds raised through the ASB are generated for the benefit of students and their activities, and should not be used to purchase items that do not directly benefit the students. Purchase of refreshments for the site’s staff development day is the responsibility of the school, and ASB monies should not be used to supplant school site responsibilities.

Dana Hills High School

Observations

During our review of the site's ASB internal control processes, we noted the following issues:

1. One out of fifteen expenditures reviewed was not an appropriate expenditure for student body funds. Student body funds are for the benefit of the students and/or their organizations. The school site purchased Spanish workbooks to be utilized in the school site's Spanish classes. Although these items are a benefit to the students, funds from the ASB account should not be used to purchase instructional materials.
2. One out of fifteen expenditures reviewed could not be located in the ASB minutes for approval of the purchase.
3. Revenue potential forms are not being completed prior to the start of all fundraising activities held by the student body. In addition, once revenue potential forms are completed, they are not filled out in their entirety. In the revenue potentials reviewed the difference between anticipated sales and actual sales was not documented. The forms also did not have an explanation of why there was an overage or shortage for the fundraiser.

Recommendations

1. Funds raised through the ASB are generated for the benefit of students and their activities, and should not be used to purchase items that do not directly benefit the students. Purchases of workbooks to be used in the classroom are the responsibility of the school, and ASB monies should not be used to supplant school responsibilities.
2. All expenditures, prior to the items being purchased, should be approved by the student body to ensure that the proper funding is available and the purchase is for appropriate expenditures. All approvals should be clearly documented within the ASB minutes, including the date the approval took place to ensure that proper approval documentation is retained for audit purposes.
3. All revenue potentials must have the anticipated revenue and expense sections completed prior to the start of the fundraiser, with the actual outcome and analysis completely filled out at the end of each event. The revenue potentials form is important because it shows whether or not all the monies that should have been raised and turned in actually were based on the price of the item and the number sold. The form is also used to document overages and shortages or losses of merchandise. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

Aliso Niguel High School

Student Store Inventory

Observation

A physical inventory count of PE Clothing is being performed; however there is no procedure in place to reconcile sales with inventory. Manual inventory reconciliations for PE clothes are not being performed by the site and compared to the perpetual sales.

Governing Board
Capistrano Unified School District

Recommendation

In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count of the PE Clothing. A physical inventory should be taken at a minimum, bi-annually, under supervision of the advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

Aliso Niguel High School

Bank Reconciliation

Observation

During review of the site's bank reconciliation process, it was noted the monthly bank reconciliation is not independently reviewed prior to being sent to the District office.

Recommendation

Bank reconciliations should be reviewed by the ASB advisor or the site principal prior to being sent to the District office. In order for this to be an effective control, it is important that the prepared bank reconciliation be reviewed by an administrative employee who has knowledge of the ASB activities.

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

VA VZURK, TRANE, DAN & CO. LLP

Rancho Cucamonga, California
December 14, 2009