

**CAPISTRANO UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

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, 2011, 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 2010-11*, 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, 2011, 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 accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Notes 1 and 20.

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, 2011, 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 information on pages 60 and 61, are not a required part of the basic financial statements, but are 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*, 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.

VADNER, TRING, DAY & CO. LLP

Rancho Cucamonga, California
December 14, 2011



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, 2011. 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, 2011

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, 2011

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, such as our funds for associated student body activities, and special tax assessments collected on behalf of the CFDs for the repayment of debt. The District's fiduciary activities are reported in the *Statements of Fiduciary Net 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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

FINANCIAL HIGHLIGHTS

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$723.5 million for the fiscal year ended June 30, 2011. Of this amount, \$3.4 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.

Table 1

(Amounts in millions)

	Governmental Activities	
	2011	2010
Assets		
Current and other assets	\$ 136.2	\$ 156.2
Capital assets	737.1	747.9
Total Assets	873.3	904.1
Liabilities		
Current liabilities	37.8	64.3
Long-term obligations	112.0	113.6
Total Liabilities	149.8	177.9
Net Assets		
Invested in capital assets, net of related debt	699.7	699.7
Restricted	20.4	19.7
Unrestricted	3.4	6.8
Total Net Assets	\$ 723.5	\$ 726.2

The \$3.4 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, 2011

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	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 8.8	\$ 7.0
Operating grants and contributions	66.4	67.2
General revenues:		
Federal and State aid not restricted	61.3	35.4
Property taxes	248.6	256.5
Other general revenues	30.3	36.4
Total Revenues	415.4	402.5
Expenses		
Instruction-related	300.4	301.8
Student support services	38.5	40.4
Administration	9.9	14.5
Maintenance and operations	31.7	31.9
Depreciation (unallocated)	17.5	22.0
Other	20.1	18.0
Total Expenses	418.1	428.6
Change in Net Assets	\$ (2.7)	\$ (26.1)

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$418.1 million. The amount that our local taxpayers ultimately financed for these activities through local property taxes was \$248.6 million. The District also collected \$8.8 million in charges for services from those that benefited from the programs. Other government agencies and organizations subsidized certain programs with grants and contributions (\$66.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$91.6 million in unrestricted State and Federal funds, and with other revenues, such as gifts, interest and general entitlements. Key changes affecting net assets during the 2010-2011 fiscal year include:

- State and Federal aid not restricted to specific purposes increased 73 percent, due primarily to one-time Federal funding (ARRA and Education Jobs Fund).
- Administration related expenditures were reduced by 46 percent, due primarily to decreasing all other administration costs.
- Depreciation decreased by over 25 percent, due to adjusting accumulated depreciation for assets previously retired.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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	
	2011	2010	2011	2010
Instruction-related	\$ 300.4	\$ 301.8	\$ 251.1	\$ 253.8
Student support services	38.5	40.4	20.3	20.7
Administration	9.9	14.5	7.9	12.2
Maintenance and operations	31.7	31.9	31.4	31.7
Depreciation (unallocated)	17.5	22.0	17.5	22.0
Other	20.1	18.0	14.7	14.0
Total	\$ 418.1	\$ 428.6	\$ 342.9	\$ 354.4

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$89.3 million, which is an increase of \$4.8 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2010, as Restated	Revenues	Expenditures	June 30, 2011
General	\$ 29.1	\$ 385.5	\$ 385.8	\$ 28.8
Capital project fund for blended component units	30.3	7.7	4.6	33.4
Child development	1.4	5.4	5.8	1.0
Cafeteria	2.1	11.1	10.4	2.8
Building	5.1	-	-	5.1
Capital facilities	3.9	0.7	0.3	4.3
County school facilities	2.1	-	-	2.1
Special reserve fund for capital outlay projects	4.2	2.8	1.6	5.4
Bond interest and redemption	3.7	4.9	4.7	3.9
Debt service	2.6	2.0	2.1	2.5
Total	\$ 84.5	\$ 420.1	\$ 415.3	\$ 89.3

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

The primary reasons for the increase in the combined fund balances are due to changes within the General Fund and the Capital Project Fund for Blended Component Units.

1. Our General Fund is our principal operating fund. The balance in the General Fund decreased from \$29.1 million to \$28.8 million. This decrease is due primarily to continued reductions in State Revenue Limit funding, due to a deficit factor of 19.754 percent.
2. Our Capital Project Fund for Blended Component Units represent our funds held for Community Facilities Districts. The increase in fund balance of \$3.1 million is due to decreased new construction activity in the 2010-2011 fiscal year.

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 2010-2011 budget was adopted in September 2011. (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 60).

The District adopted its budget for the 2010-2011 school year in June 2010. The District's final budget incorporated:

- a. Carrying-forward estimated actual amounts from the prior year's budget, and utilizing assumptions provided by the Orange County Department of Education.
- b. District-generated enrollment projections.
- c. District-specific assumptions with respect to revenues and expenditures.
- d. Tier III categorical flexibility.
- e. 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 2010, which incorporated the application of carryover from the fiscal year end 2009-2010.
- b. December 2010, which incorporated the changes in Average Daily Attendance (ADA) funding and additional programmatic funding, based on the First Interim Report.
- c. March 2011, which incorporated further changes and refinements to ADA and programmatic funding based on the Second Interim Report.
- d. June 2011, which incorporated additional changes and refinements to ADA and programmatic funding, based on the 2010-2011 Estimated Actuals, and the adoption of the 2011-2012 budget.
- e. September 2011, 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 2010-2011 fiscal year. Additionally, increases and changes to employee health and welfare benefits were also incorporated in the fiscal year budget.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$737.1 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 \$10.8 million, or 1.4 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities	
	2011	2010
Land and construction		
in progress	\$ 282.9	\$ 281.5
Buildings and improvements	446.1	460.6
Equipment	8.1	5.8
Total	\$ 737.1	\$ 747.9

This year's major additions included:

Modernization at San Juan Hills High School	\$ 2.3
Capitalization of Xerox copiers	3.5
Completion of Dana Hills High School Gym	2.3
	<u>\$ 8.1</u>

The significant decrease between 2010 and 2011 in buildings and improvements (\$14.5 million) is attributed to current year additions to accumulated depreciation. Typically, asset additions to buildings and equipment offset accumulated depreciation. However, as the District only added minimal new assets in buildings and improvements in the 2010-2011 fiscal year, the effect of accumulated depreciation is shown. 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, improvements, and equipment. No new debt was issued for these activities.

A limited number of capital projects are planned for the 2011-2012 year. Planning for future potential capital initiatives is ongoing. The District plans to acquire a modest amount of additional capitalized supplies, equipment, and furnishings during the 2011-2012 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Long-Term Obligations

At the end of this year, the District had \$112.0 million in long-term obligations versus \$113.6 million last year, a decrease of less than one percent. Those obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2011	2010
General obligation bonds (financed with property taxes)	\$ 57.0	\$ 58.7
Certificates of participation	23.9	24.7
Capitalized lease obligations	2.9	0.8
Other postemployment benefits (OPEB)	15.8	11.9
Compensated absences	3.5	3.2
Supplemental early retirement plan (SERP)	-	0.3
Promissory note	-	6.0
Other	8.9	8.0
Total	\$ 112.0	\$ 113.6

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 \$57.0 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 8 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the June 29, 2011 Board meeting, the Board of Trustees adopted the Final Budget for the 2011-2012 school year. At that time, the State Legislature had not adopted a State budget. In considering the District budget for the 2011-2012 year, the Board of Trustees and management used the following criteria and assumptions:

2011-2012 Budget Adoption:

Cost of Living Adjustment (COLA)	2.24%
Average Daily Attendance	49,475
ADA Growth / (Decrease)	(730)
Base Revenue Limit	\$6,492.18
Revenue Limit Deficit	19.754%
Funded Revenue Limit	\$5,209.71
Lottery Funding per ADA (combined)	\$128.75

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

The most current District budget, the 2011-2012 First Interim Financial Report, was presented and approved by the Board of Trustees on December 12, 2011. This revised budget incorporates actual enrollment (based on P1 data) and staffing data. The District experienced no change in budgeted ADA. The First Interim projected the following activity (in millions):

Beginning Fund Balance	\$ 28.64
Revenues and Transfers-In	367.22
(LESS) Expenditures & Transfers-Out	<u>381.81</u>
Ending Fund Balance	<u>\$ 14.05</u>
(LESS) Revolving Cash and Stores	\$ 0.33
(LESS) Reserve for Economic Uncertainties	9.29
(LESS) Local Designations	<u>4.43</u>
Net Ending Fund Balance	<u>\$ 0.00</u>

The State mandates a minimum two percent reserve for a district the size of Capistrano Unified School District, and the current reserve for economic uncertainty is 2.43 percent, or \$9.29 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:

2011-2012 First Interim

Cost of Living Adjustment (COLA)	2.24%
Average Daily Attendance	49,475
ADA Growth / (Decrease)	(730)
Base Revenue Limit	\$6,492.18
Revenue Limit Deficit	19.754%
Funded Revenue Limit	\$5,209.71
Lottery Funding per ADA (combined)	\$128.75

The effects of the economic recession, and the sluggish recovery continues to have a significant impact upon the District budget during the 2011-2012 fiscal year. With the preparation of the District's First Interim Financial Report, the District has maintained a balanced budget for 2011-2012. The District projects needed ongoing budget reductions of approximately \$25.0 million in 2012-2013, and an additional \$3.55 million in 2013-2014, for which the District must identify cost reductions.

The Legislative Analyst Office (LAO) has presented new analysis of the recently adopted 2011-2012 State Budget, in which they forecast a potential deficit in excess of \$3.7 billion during the 2011-2012 fiscal year (the "triggers") and an additional \$7 billion during the 2012-2013 fiscal year. The Governor's proposal for the 2012-2013 State Budget is scheduled to be released in February 2012. At that time, the LAO's projected budget shortfalls will likely be quantified into the Governor's projection for the remainder of 2011-2012 and the upcoming 2012-2013 fiscal years. The Governor's January proposal and the ramifications of these projected deficits may force the District, and other local educational agencies (LEAs), to make modifications to its adopted budget and multiple year projections.

CAPISTRANO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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 those listed below at Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, California, 92675:

Robyn Phillips, Interim Deputy Superintendent, Business and Support Services, 949-234-9211, rsphillips@capousd.org
David W. Carter, Executive Director, Fiscal Services, 949-234-9317, dwcarter@capousd.org.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activities
ASSETS	
Deposits and investments	\$ 90,392,328
Receivables	44,742,799
Prepaid expenses	11,236
Deferred costs on issuance	753,818
Stores inventories	260,716
Capital assets	
Land and construction in progress	282,901,331
Other capital assets	689,530,375
Less: accumulated depreciation	(235,318,883)
Total Capital Assets	737,112,823
Total Assets	873,273,720
LIABILITIES	
Accounts payable	26,857,562
Accrued interest payable	904,623
Deferred revenue	9,991,943
Long-term obligations	
Current portion of long-term obligations	7,522,272
Noncurrent portion of long-term obligations	104,501,180
Total Long-Term Obligations	112,023,452
Total Liabilities	149,777,580
NET ASSETS	
Invested in capital assets, net of related debt	699,657,048
Restricted for:	
Debt service	5,497,483
Capital projects	6,389,192
Educational programs	4,236,302
Other activities	4,340,176
Unrestricted	3,375,939
Total Net Assets	\$ 723,496,140

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 260,668,272	\$ 562,374	\$ 39,326,909	\$ 9,596	\$ (220,769,393)
Instruction-related activities:					
Supervision of instruction	10,412,583	135,666	7,229,492	-	(3,047,425)
Instructional library, media, and technology	1,891,295	-	84,076	-	(1,807,219)
School site administration	27,451,338	68,337	1,889,378	-	(25,493,623)
Pupil services:					
Home-to-school transportation	9,061,028	481,241	2,407,477	-	(6,172,310)
Food services	10,203,618	5,696,152	4,781,810	-	274,344
All other pupil services	19,257,632	62,216	4,770,942	-	(14,424,474)
Administration:					
Data processing	4,081,955	299	151	-	(4,081,505)
All other administration	5,829,850	210,922	1,757,421	-	(3,861,507)
Plant services	31,690,059	60	251,304	-	(31,438,695)
Ancillary services	3,362,658	-	-	-	(3,362,658)
Enterprise services	1,980,234	530	443	-	(1,979,261)
Interest on long-term obligations	4,503,690	-	-	-	(4,503,690)
Other outgo	10,166,765	1,548,648	3,922,865	-	(4,695,252)
Depreciation (unallocated) ¹	17,545,827	-	-	-	(17,545,827)
Total Governmental Activities	\$ 418,106,804	\$ 8,766,445	\$ 66,422,268	\$ 9,596	(342,908,495)
General revenues and subventions:					
Property taxes, levied for general purposes					241,571,124
Property taxes, levied for debt service					4,931,458
Taxes levied for other specific purposes					2,130,984
Federal and State aid not restricted to specific purposes					61,319,566
Interest and investment earnings					625,687
Transfers					229,554
Miscellaneous					29,372,505
Subtotal, General Revenues					340,180,878
Change in Net Assets					(2,727,617)
Net Assets - Beginning					726,223,757
Net Assets - Ending					\$ 723,496,140

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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2011

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 20,240,504	\$ 34,346,922	\$ 27,725,810	\$ 82,313,236
Receivables	42,326,176	83	1,582,147	43,908,406
Due from other funds	668,787	-	4,496	673,283
Prepaid expenditures	11,236	-	-	11,236
Stores inventories	121,545	-	139,171	260,716
Total Assets	\$ 63,368,248	\$ 34,347,005	\$ 29,451,624	\$ 127,166,877
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 24,638,562	\$ 603,263	\$ 1,336,228	\$ 26,578,053
Due to other funds	464,755	322,808	469,712	1,257,275
Deferred revenue	9,431,759	-	560,184	9,991,943
Total Liabilities	34,535,076	926,071	2,366,124	37,827,271
Fund Balances:				
Nonspendable	307,781	-	151,921	459,702
Restricted	4,236,302	33,420,934	21,536,062	59,193,298
Assigned	6,380,969	-	5,397,517	11,778,486
Unassigned	17,908,120	-	-	17,908,120
Total Fund Balances	28,833,172	33,420,934	27,085,500	89,339,606
Total Liabilities and Fund Balances	\$ 63,368,248	\$ 34,347,005	\$ 29,451,624	\$ 127,166,877

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, 2011

Total Fund Balance - Governmental Funds		\$ 89,339,606
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	\$ 972,431,706	
Accumulated depreciation is	<u>(235,318,883)</u>	
Net Capital Assets		737,112,823
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		753,818
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.		(904,623)
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.		680,118
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	48,449,929	
Premium on bonds	221,875	
Certificates of participation	23,855,000	
Capital leases payable	2,926,669	
Other postemployment benefits (OPEB)	15,766,750	
Compensated absences (vacations)	3,463,649	
Developer fee agreement	507,942	
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:		
Total Long-Term Obligations	<u>8,293,788</u>	<u>(103,485,602)</u>
Total Net Assets - Governmental Activities		<u>\$ 723,496,140</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 BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 262,948,657	\$ -	\$ -	\$ 262,948,657
Federal sources	25,532,345	-	4,795,068	30,327,413
Other State sources	82,534,577	-	3,070,010	85,604,587
Other local sources	10,957,916	7,687,712	17,327,421	35,973,049
Total Revenues	381,973,495	7,687,712	25,192,499	414,853,706
EXPENDITURES				
Current				
Instruction	257,024,216	-	3,850,268	260,874,484
Instruction-related activities:				
Supervision of instruction	9,676,129	-	615,528	10,291,657
Instructional library, media and technology	1,871,040	-	-	1,871,040
School site administration	26,625,276	-	600,186	27,225,462
Pupil services:				
Home-to-school transportation	8,479,516	-	-	8,479,516
Food services	-	-	10,149,331	10,149,331
All other pupil services	18,809,784	-	239,297	19,049,081
Administration:				
Data processing	3,996,811	-	-	3,996,811
All other administration	11,243,893	-	466,020	11,709,913
Plant services	31,068,058	-	289,214	31,357,272
Facility acquisition and construction	709,959	3,120,487	291,020	4,121,466
Ancillary services	3,329,095	-	-	3,329,095
Other outgo	9,562,753	604,012	-	10,166,765
Enterprise services	1,957,145	-	908	1,958,053
Debt service				
Principal	1,095,631	-	3,699,840	4,795,471
Interest and other	279,478	-	3,219,589	3,499,067
Total Expenditures	385,728,784	3,724,499	23,421,201	412,874,484
Excess (Deficiency) of Revenues Over Expenditures	(3,755,289)	3,963,213	1,771,298	1,979,222
Other Financing Sources (Uses)				
Transfers in	650,000	-	1,817,430	2,467,430
Other sources	2,854,130	-	-	2,854,130
Transfers out	-	(892,364)	(1,575,066)	(2,467,430)
Net Financing Sources (Uses)	3,504,130	(892,364)	242,364	2,854,130
NET CHANGE IN FUND BALANCES	(251,159)	3,070,849	2,013,662	4,833,352
Fund Balances - Beginning	26,560,746	30,350,085	27,595,423	84,506,254
Prior Period Restatement	2,523,585	-	(2,523,585)	-
Fund Balances - Ending	\$ 28,833,172	\$ 33,420,934	\$ 27,085,500	\$ 89,339,606

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 STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds **\$ 4,833,352**
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	\$ (18,050,722)	
Capital outlays	<u>7,266,626</u>	
Net Expense Adjustment		(10,784,096)

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.

(2,854,130)

Contributions for other postemployment benefits (OPEB) are recorded as an expense in the governmental funds when paid. However, the difference between the annual OPEB cost 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 OPEB cost.

(3,828,738)

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 were more than the amount earned by \$339,523. Vacation used was less than the amounts earned by \$222,418.

117,105

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	2,725,000
Certificates of participation	885,000
Capital lease obligations	685,816
Energy assistance loan	108,087
Developer fee agreement	52,045
Promissory note	6,000,000

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 STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2011

Governmental funds report the effect of premiums, discounts, issuance costs, and deferred costs on a refunding when the debt is first issued, whereas, the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of the amortization of the related items:

Amortization of premium on general obligation bonds	\$	13,867	
Amortization of cost of issuance of general obligation bonds		<u>(31,965)</u>	
Combined adjustment			\$ (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 \$50,751. Second, \$1,037,276 of additional accumulated interest was accreted on the Districts' "capital appreciation" general obligation bonds.

(986,525)

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.

337,565

Change in Net Assets of Governmental Activities

\$ (2,727,617)

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 8,079,092
Receivables	834,393
Due from other funds	586,479
Total Current Assets	9,499,964
LIABILITIES	
Current Liabilities	
Accounts payable	279,509
Due to other funds	2,487
Current portion of claims liability	2,852,059
Total Current Liabilities	3,134,055
Noncurrent Liabilities	
Noncurrent portion of claims liability	5,685,791
Total Liabilities	8,819,846
NET ASSETS	
Restricted	680,118
Total Net Assets	\$ 680,118

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, 2011

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 54,756,400
All other fees and contracts	456,285
Total Operating Revenues	<u>55,212,685</u>
OPERATING EXPENSES	
Payroll costs	403,162
Professional and contract services	54,514,514
Supplies and materials	26,640
Total Operating Expenses	<u>54,944,316</u>
Operating Income	<u>268,369</u>
NONOPERATING REVENUES	
Interest income	69,196
Change in Net Assets	<u>337,565</u>
Total Net Assets - Beginning	<u>342,553</u>
Total Net Assets - Ending	<u><u>\$ 680,118</u></u>

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, 2011

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 56,230,400
Other operating cash receipts	46,420
Cash payments to employees for services	(403,162)
Cash payments for interfund services used	(51,517,797)
Other operating cash payments	(1,845,188)
Net Cash Provided by Operating Activities	<u>2,510,673</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	69,196
Net Increase in Cash and Cash Equivalents	<u>2,579,869</u>
Cash and Cash Equivalents - Beginning	5,499,223
Cash and Cash Equivalents - Ending	<u>\$ 8,079,092</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 268,369
Changes in assets and liabilities:	
Accounts receivable	(409,865)
Due from other funds	1,474,000
Accounts payable	(95,844)
Due to other funds	1,823
Claims liability	1,272,190
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 2,510,673</u></u>

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2011

	Agency Funds
ASSETS	
Deposits and investments	\$ 49,710,699
Receivables	1,250,735
Stores inventories	26,951
Total Assets	\$ 50,988,385
LIABILITIES	
Accounts payable	\$ 243,141
Due to student groups	4,180,488
Due to bondholders	46,564,756
Total Liabilities	\$ 50,988,385

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, ten middle schools, two kindergarten through eighth grade schools, six high schools, one continuation high school, one adult education 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 as an Agency Fund. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation or the CFDs.

Other Related Entities

Charter School The District has approved a charter for Journey Charter School, Opportunities 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, 2011

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 and report all financial resources not accounted for and reported in another fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extensions of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$1,891,339, \$1,385,642, \$6,189,627, and \$5,219,274, respectively.

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).

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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).

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (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 used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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).

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 no enterprise funds. The District has the following proprietary funds:

Internal Service Fund Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates 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 internal service fund the restrictions on their net asset use.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net 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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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, 2011, 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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net 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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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 Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District does not currently have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Spending Order Policy

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

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 report \$20,463,153 of restricted net assets, which is restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

Changes in Accounting Principles

In March 2009, the GASB issued 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the General Fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this Statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 90,392,328
Fiduciary funds	49,710,699
Total Deposits and Investments	<u>\$ 140,103,027</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 9,851,841
Cash in revolving	867,750
Investments	129,383,436
Total Deposits and Investments	<u>\$ 140,103,027</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.

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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal Home Loan Mortgage Corporation	N/A	None	None
Participation Certificates - Senior Debt Obligations	N/A	None	None
Farm Credit Banks Bonds and Notes	N/A	None	None
Federal Home Loan Banks Consolidated Debt Obligations	N/A	None	None
Federal National Mortgage Association Senior Debt Obligations	N/A	None	None
Student Loan Marketing Association Senior Debt Obligations	N/A	None	None
Financing Corporation Debt Obligations	N/A	None	None
Resolution Funding Corporation Debt Obligations	N/A	None	None
Certificates of Deposit, Time Deposits, Bankers' Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Deposit Accounts	N/A	None	None
Money Market Funds	N/A	None	None
Registered State Bonds, Notes, Warrants	N/A	None	None
Local Agency Bonds, Notes, Warrants	N/A	None	None
Repurchase Agreements	N/A	None	None
Investment Agreements	N/A	None	None

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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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	\$ 50,809,336	\$ 50,892,200	289	Aaa
Local Agency Investment Fund (LAIF)	524,962	525,790	237	Aaa
First American Treasury Obligations Fund Class D	65,421,496	65,421,496	35	Aaa
First American Prime Obligations Fund Class Z	1,796,568	1,796,568	34	Aaa
AIG Matched Fundings Corp. Investment Agreement	2,218,000	2,218,000	9/1/2023	*
Bayerische Landesbank Girozentrale - Investment Agreement ¹	637,750	637,750	9/1/2014	*
FSA Capital Management Service GIC Investment ¹	1,932,264	1,932,264	8/25/2032	*
FSA Capital Management Service GIC Investment ¹	3,576,000	3,576,000	8/25/2020	*
FSA Capital Management Service GIC Investment ²	2,467,060	2,467,060	12/1/2026	*
Total	<u>\$ 129,383,436</u>	<u>\$ 129,467,128</u>		

* Not rated, nor required to be rated

¹ Investment balance relates to amounts that will be used to repay non-obligatory debt of CFDs, as discussed in Note 11.

² Investment balance relates to amounts that will be used to repay COP debt, as discussed in Note 9.

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 six percent of the total investments held by the District.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, the District had a bank balance of \$1,432,608 that 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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, 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 Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 6,900,310	\$ -	\$ 903,922	\$ -	\$ 7,804,232	\$ -
State Government						
Apportionment	16,197,750	-	-	-	16,197,750	-
Categorical aid	4,564,240	-	347,013	-	4,911,253	-
Lottery	3,538,605	-	-	-	3,538,605	-
Special education	6,362,958	-	-	-	6,362,958	-
Local Government						
Interest	27,818	83	30,371	7,971	66,243	-
Property taxes	-	-	300,841	826,422	1,127,263	1,250,735
Other Local Sources	4,734,495	-	-	-	4,734,495	-
Total	\$ 42,326,176	\$ 83	\$ 1,582,147	\$ 834,393	\$ 44,742,799	\$ 1,250,735

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 278,778,330	\$ -	\$ -	\$ 278,778,330
Construction in Progress	2,723,308	2,904,607	1,504,914	4,123,001
Total Capital Assets Not Being Depreciated	281,501,638	2,904,607	1,504,914	282,901,331
Capital Assets Being Depreciated:				
Land Improvements	41,213,299	-	-	41,213,299
Buildings and Improvements	621,930,351	2,210,503	-	624,140,854
Furniture and Equipment	20,519,792	3,656,430	-	24,176,222
Total Capital Assets Being Depreciated	683,663,442	5,866,933	-	689,530,375
Total Capital Assets	965,165,080	8,771,540	1,504,914	972,431,706
Less Accumulated Depreciation:				
Land Improvements	6,727,104	2,060,665	-	8,787,769
Buildings and Improvements	195,774,912	14,714,002	-	210,488,914
Furniture and Equipment	14,766,145	1,276,055	-	16,042,200
Total Accumulated Depreciation	217,268,161	18,050,722	-	235,318,883
Governmental Activities Capital Assets, Net	\$ 747,896,919	\$ (9,279,182)	\$ 1,504,914	\$ 737,112,823

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

Governmental Activities

Home-to-school transportation	\$ 504,895
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The remaining \$17,545,827 in depreciation expense was classified as unallocated on the Statement of Activities.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, 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	\$ -	\$ 322,808	\$ 345,507	\$ 472	\$ 668,787
Non-Major Governmental Funds	1,070	-	3,426	-	4,496
Internal Service Fund	463,685	-	120,779	2,015	586,479
Total	<u>\$ 464,755</u>	<u>\$ 322,808</u>	<u>\$ 469,712</u>	<u>\$ 2,487</u>	<u>\$ 1,259,762</u>

The General Fund owes \$463,685 to the Internal Service Fund for workers' compensation and Health and Welfare benefit expenditures.

The Capital Project Fund for Blended Component Units owes \$322,808 to the General Fund for administrative costs.

The Child Development Non-Major Governmental Fund owes \$278,096 to the General Fund for retiree benefits, miscellaneous operating costs, and indirect costs.

The Cafeteria Non-Major Governmental Fund owes \$67,127 to the General Fund for payroll, retiree benefits, and indirect costs.

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, 2011

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	Transfer From		
	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 650,000	\$ 650,000
Non-Major Governmental Funds	892,364	925,066	1,817,430
Total	<u>\$ 892,364</u>	<u>\$ 1,575,066</u>	<u>\$ 2,467,430</u>

The Capital Project Fund for Blended Component Units transferred to the Debt Service
Non-Major Governmental Fund for debt service payments.

\$ 892,364

The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund
transferred to the General Fund for the reimbursement of lease costs.

650,000

The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund
transferred to the Debt Service Non-Major Governmental Fund for debt service payments.

925,066

Total

\$ 2,467,430

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 14,876,284	\$ -	\$ 1,106,872	\$ 19,057	\$ 16,002,213	\$ -
State apportionment	239,863	-	-	89,801	329,664	-
Supplies	1,317,339	-	203,747	2,419	1,523,505	-
Services	4,688,245	-	14,940	167,846	4,871,031	-
Capital outlay	9,886	603,263	4,683	-	617,832	-
Other payables	3,506,945	-	5,986	386	3,513,317	243,141
Total	<u>\$ 24,638,562</u>	<u>\$ 603,263</u>	<u>\$ 1,336,228</u>	<u>\$ 279,509</u>	<u>\$ 26,857,562</u>	<u>\$ 243,141</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 8,941,135	\$ -	\$ 8,941,135
State categorical aid	24,734	78,117	102,851
Other local	465,890	482,067	947,957
Total	<u>\$ 9,431,759</u>	<u>\$ 560,184</u>	<u>\$ 9,991,943</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 58,431,441	\$ 1,037,276	\$ 2,725,000	\$ 56,743,717	\$ 2,940,000
Premium on bonds	235,742	-	13,867	221,875	-
2002 Certificates of Participation	24,740,000	-	885,000	23,855,000	1,010,000
Compensated absences	3,241,231	222,418	-	3,463,649	-
Capital leases payable	758,355	2,854,130	685,816	2,926,669	720,213
Supplemental early retirement plan (SERP)	339,523	-	339,523	-	-
Energy assistance loan	108,087	-	108,087	-	-
Developer fee agreement	559,987	-	52,045	507,942	-
Other postemployment benefits (OPEB)	11,938,012	6,022,044	2,193,306	15,766,750	-
Claims liability	7,265,660	4,124,249	2,852,059	8,537,850	2,852,059
Promissory note	6,000,000	-	6,000,000	-	-
	<u>\$ 113,618,038</u>	<u>\$ 14,260,117</u>	<u>\$ 15,854,703</u>	<u>\$ 112,023,452</u>	<u>\$ 7,522,272</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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 and OPEB will be paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

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, 2010	Accreted	Redeemed	June 30, 2011
2/2000	8/2024	5.00-6.25%	\$ 17,400,000	\$ 15,105,000	\$ -	\$ 480,000	\$ 14,625,000
2/2001	8/2025	4.00-5.10%	29,999,930	27,456,441	1,037,276	1,825,000	26,668,717
7/2002	8/2026	3.00-5.125%	17,600,000	15,870,000	-	420,000	15,450,000
				<u>\$ 58,431,441</u>	<u>\$ 1,037,276</u>	<u>\$ 2,725,000</u>	<u>\$ 56,743,717</u>

Election of 1999, General Obligation Bonds, Series A

In February 2000, the Capistrano Unified School District issued the 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, 2011, the principal balance outstanding was \$14,625,000.

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, 2011, the principal balance outstanding was \$26,668,717.

Election of 1999, General Obligation Bonds, Series C

In July 2002, the Capistrano Unified School District issued the 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, 2011, the principal balance outstanding was \$15,450,000. Unamortized premium and issuance costs at June 30, 2011 were \$221,875 and \$188,312, respectively.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Debt Service Requirements to Maturity

The bonds mature through 2027 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Current Interest to Maturity	Total
2012	\$ 2,940,000	\$ -	\$ 1,987,974	\$ 4,927,974
2013	3,175,000	-	1,866,524	5,041,524
2014	3,440,000	-	1,724,504	5,164,504
2015	3,363,429	361,571	1,562,014	5,287,014
2016	3,433,382	476,618	1,444,503	5,354,503
2017-2021	18,504,891	4,630,109	5,926,189	29,061,189
2022-2026	20,242,015	8,787,985	2,816,753	31,846,753
2027	1,645,000	-	161,625	1,806,625
Total	<u>\$ 56,743,717</u>	<u>\$ 14,256,283</u>	<u>\$ 17,490,086</u>	<u>\$ 88,490,086</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, 2011, the principal balance outstanding was \$23,855,000. Unamortized issuance costs at June 30, 2011, were \$565,506.

The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,010,000	\$ 1,179,089	\$ 2,189,089
2013	1,060,000	1,133,019	2,193,019
2014	1,125,000	1,083,856	2,208,856
2015	1,185,000	1,030,400	2,215,400
2016	1,255,000	972,450	2,227,450
2017-2021	7,475,000	3,800,328	11,275,328
2022-2026	9,980,000	1,574,306	11,554,306
2027	765,000	27,956	792,956
Total	<u>\$ 23,855,000</u>	<u>\$ 10,801,404</u>	<u>\$ 34,656,404</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$3,463,649.

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, 2010	\$ 855,440
Additions	3,604,313
Payments	(970,590)
Balance, June 30, 2011	<u>\$ 3,489,163</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 951,163
2013	867,611
2014	769,583
2015	751,360
2016	49,816
2017-2018	99,630
Total	<u>3,489,163</u>
Less: Amount Representing Interest	562,494
Present Value of Minimum Lease Payments	<u>\$ 2,926,669</u>

Supplemental Early Retirement Plan (SERP)

The District previously 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 final payment for the SERP was paid during 2010-2011. Accordingly, no outstanding liability remains as of June 30, 2011.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, the District did not have any outstanding loan balance.

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, 2011, the outstanding balance on the site purchase was \$507,942.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$6,164,748, and contributions made by the District during the year were \$2,193,306. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$596,901 and (\$739,605), respectively, which resulted in an increase to the net OPEB obligation of \$3,828,738. As of June 30, 2011, the net OPEB obligation was \$15,766,750. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits 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, 2011, amounted to \$8,537,850.

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. The original agreement stated that the balance would be due and payable on the fifth anniversary of the date hereof. However, the District has negotiated the terms of repayment. As of June 30, 2011, the District had no outstanding balance.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 9 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2011, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	\$ 378,203,530	\$ 385,728,784 *	\$ 7,525,254

* Includes on behalf payments of \$8,239,482

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 \$289,262,793 as of June 30, 2011, 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, 2011

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 175,000	\$ -	\$ 12,750	\$ 187,750
Stores inventories	121,545	-	139,171	260,716
Prepaid expenditures	11,236	-	-	11,236
Total Nonspendable	307,781	-	151,921	459,702
Restricted				
Legally restricted programs	4,236,302	-	3,660,058	7,896,360
Capital projects	-	33,420,934	11,473,898	44,894,832
Debt services	-	-	6,402,106	6,402,106
Total Restricted	4,236,302	33,420,934	21,536,062	59,193,298
Assigned				
Balance of budgeted revenue limit	1,866,620	-	-	1,866,620
Gift donations	1,340,629	-	-	1,340,629
Teacher development	118,186	-	-	118,186
Book abatement	94,632	-	-	94,632
Site allocations	575,253	-	-	575,253
Deferred maintenance	1,903,100	-	-	1,903,100
Adult education	404,878	-	-	404,878
Retiree benefits	77,671	-	-	77,671
Capital projects	-	-	5,397,517	5,397,517
Total Assigned	6,380,969	-	5,397,517	11,778,486
Unassigned				
Reserve for economic uncertainties	17,908,120	-	-	17,908,120
Total Unassigned	17,908,120	-	-	17,908,120
Total	\$ 28,833,172	\$ 33,420,934	\$ 27,085,500	\$ 89,339,606

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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 300 retirees and beneficiaries currently receiving benefits, 39 terminated Plan members entitled to but not yet receiving benefits, and 3,511 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 2010-2011, the District contributed \$2,193,306 to the Plan, all of which was used for current premiums (approximately 71 percent of total premiums). Plan members receiving benefits contributed \$882,448, or approximately 29 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 30 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	\$ 6,164,748
Interest on net OPEB obligation	596,901
Adjustment to annual required contribution	(739,605)
Annual OPEB cost (expense)	<u>6,022,044</u>
Contributions made	<u>(2,193,306)</u>
Increase in net OPEB obligation	3,828,738
Net OPEB obligation, beginning of year	11,938,012
Net OPEB obligation, end of year	<u><u>\$ 15,766,750</u></u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 6,296,664	\$ 1,589,032	25%	\$ 7,431,332
2010	6,240,390	1,733,710	28%	11,938,012
2011	6,022,044	2,193,306	36%	15,766,750

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2010	\$ -	\$ 51,500,839	\$ 51,500,839	0%	\$ 244,565,717	21%

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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

In the July 1, 2010, 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, 2011, was 25 years.

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, 2011, 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.

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.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2009 to June 30, 2011 (in thousands):

	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2009	\$ 6,217,657	\$ 912,068	\$ 7,129,725
Claims and changes in estimates	2,945,334	488,771	3,434,105
Claims payments	(2,469,665)	(828,505)	(3,298,170)
Liability Balance, June 30, 2010	6,693,326	572,334	7,265,660
Claims and changes in estimates	3,819,885	304,364	4,124,249
Claims payments	(2,572,115)	(279,944)	(2,852,059)
Liability Balance, June 30, 2011	\$ 7,941,096	\$ 596,754	\$ 8,537,850
Assets available to pay claims at June 30, 2011	\$ 7,640,486	\$ 626,754	\$ 8,267,240

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).

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 2010-2011 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, 2011, 2010, and 2009, were \$15,953,953, \$16,031,472, and \$17,539,919, respectively, and equal 100 percent of the required contributions for each year.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$5,441,835, \$5,786,542, and \$5,155,812, respectively, and equal 100 percent of the required contributions for each year.

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, 2011, was \$121,046.

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 \$8,239,482 (4.267 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 budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011.

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, 2011.

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 Capistrano-Laguna Beach Regional Occupational Program (CLBROP) and Orange County Special Education Legal Alliance (OCSELA) joint powers authorities (JPA's). Payments for the District's regional occupational program and special education legal services are paid to the JPA's. The District pays an annual premium to ASCIP for its property and liability and excess liability coverage. 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.

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, 2011, the District made payments of \$646,847, \$2,831,572, and \$14,311 to ASCIP, CLBROP, and OCSELA, respectively for purposes described above.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$74,990,000 of Tax and Revenue Anticipation Notes dated August 11, 2011. The notes mature on May 15, 2012, 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 January 2012, until 100 percent of principal and interest due is on account in April, 2012.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 18 - FINANCIAL CONDITION

The anticipated reduction in tax revenue sources, primarily Educational Revenue Augmentation Funds (ERAF), has lead to an increase on the reliance of the revenue limit funding from the State of California (which is subject to deferral of receipt) and potential for mid-year "trigger" cuts. This situation has created uncertainty regarding the District's ability to generate sufficient cash flow to meet obligations without external borrowing, raising concerns about the District's financial condition.

To meet its cash flow obligations, the District has grown increasing reliant on utilizing a variety of measures to maintaining positive cash balances in the General Fund. Over the past several years, Capistrano Unified School District has issued a Tax Revenue Anticipation Note (TRAN) to help alleviate mid-year cash flow needs. For the 2011-2012 fiscal year the District anticipates issuing a cross fiscal year TRAN to balance cash flow needs in June 2012. This cash shortfall at the end of the fiscal year is due primarily to the imposition of additional negative ERAF from the County of Orange, which is to be backfilled in the following fiscal year through increased revenue limit deferral payments. As of June 30, 2011, short-term borrowings are needed to support regular daily operations.

NOTE 19 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balances for Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 20, Special Reserve Fund for Postemployment Benefits, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

General Fund

Fund Balance - Beginning	\$ 26,560,746
Change in accounting principles to conform to GASB Statement No. 54	<u>2,523,585</u>
Fund Balance - Beginning as Restated	<u><u>\$ 29,084,331</u></u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 27,595,423
Change in accounting principles to conform to GASB Statement No. 54	<u>(2,523,585)</u>
Fund Balance - Beginning as Restated	<u><u>\$ 25,071,838</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CAPISTRANO UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 249,817,746	\$ 262,849,437	\$ 262,948,657	\$ 99,220
Federal sources	24,412,429	28,247,053	25,532,345	(2,714,708)
Other State sources	66,634,461	70,848,873	82,534,577	11,685,704
Other local sources	6,112,588	9,063,289	10,957,916	1,894,627
Total Revenues ¹	346,977,224	371,008,652	381,973,495	10,964,843
EXPENDITURES				
Current				
Certificated salaries	185,962,543	190,696,410	191,237,534	(541,124)
Classified salaries	56,645,677	55,414,620	55,900,267	(485,647)
Employee benefits	72,943,233	75,321,185	83,526,382	(8,205,197)
Books and supplies	17,797,629	11,563,074	10,113,321	1,449,753
Services and operating expenditures	26,021,750	30,722,180	31,298,373	(576,193)
Capital outlay	40,229	3,543,600	3,466,899	76,701
Other outgo	9,276,879	10,942,461	8,810,899	2,131,562
Debt service				
Principal	-	-	1,095,631	(1,095,631)
Interest	-	-	279,478	(279,478)
Total Expenditures ¹	368,687,940	378,203,530	385,728,784	(7,525,254)
Excess (Deficiency) of Revenues Over Expenditures	(21,710,716)	(7,194,878)	(3,755,289)	3,439,589
Other Financing Sources				
Transfers in	2,758,297	2,758,297	650,000	(2,108,297)
Other sources	-	-	2,854,130	2,854,130
Net Financing Sources	2,758,297	2,758,297	3,504,130	745,833
NET CHANGE IN FUND BALANCE	(18,952,419)	(4,436,581)	(251,159)	4,185,422
Fund Balance - Beginning, As Restated	29,084,331	29,084,331	29,084,331	-
Fund Balance - Ending	\$ 10,131,912	\$ 24,647,750	\$ 28,833,172	\$ 4,185,422

¹ On behalf payments of \$8,239,482 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2011

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)
July 1, 2006	\$ -	\$ 29,307,668	\$ 29,307,668	0.00%	\$ 270,340,132	11%
July 1, 2008	-	48,670,245	48,670,245	0.00%	247,740,822	20%
July 1, 2010	-	51,500,839	51,500,839	0.00%	244,565,717	21%

SUPPLEMENTARY INFORMATION

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Safe Schools and Healthy Students Grants	84.184L	[1]	\$ 44,544
Indian Education	84.060A	[1]	80,889
Passed through Irvine Unified School District:			
Projects with Industry	84.234	[1]	77,965
Passed through California Department of Education (CDE):			
Adult Education and Family Literacy Act			
Adult Basic Education and ESL	84.002A	14508	282,279
Adult Secondary Education	84.002A	13978	56,986
Adult English Literacy and Civics Education	84.002A	14109	124,519
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster:			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	2,974,183
ARRA: Title I, Part A - Basic Grants Low Income and Neglected	84.389	15005	801,800
Subtotal Title I, Part A Cluster			<u>3,775,983</u>
Title II, Part D - Education Technology State Grants Cluster:			
Title II, Part D - Enhancing Education Through Technology Formula Grants	84.318	14334	17,325
ARRA Title II, Part D - Enhancing Education Through Technology Formula Grants	84.386	15019	44,676
ARRA Title II, Part D - Enhancing Education Through Technology Competitive Grants	84.386	15126	285,203
Subtotal Title II, Part D - Education Technology State Grants Cluster			<u>347,204</u>
Title I, Part B - Reading First, Special Education Teacher Professional Development Pilot Program	84.357	14911	494,548
Title I, Part B - Even Start Family Literacy Program	84.213	14331	137,265
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	17,790
Title II, Part A - Improving Teacher Quality	84.367	14341	1,109,489

[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, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
Passed through CDE:			
NCLB (continued)			
Title III, Part A - Limited English Proficient Student Program	84.365	10084	\$ 806,621
Title IV, Part A - Safe and Drug Free Schools Education of Homeless Children and Youth Cluster:	84.186	14347	62,130
Title X - McKinney-Vento Homeless Assistance	84.196A	14332	69,336
ARRA: Title X - McKinney-Vento Homeless Assistance	84.387	15007	55,347
Subtotal Education of Homeless Children and Youth Cluster			124,683
Individuals with Disabilities Education Act (IDEA)			
Special Education Cluster (IDEA):			
Local Assistance Entitlement	84.027	13379	7,819,476
Local Assistance Entitlement, Private Schools	84.027	10115	93,713
ARRA Local Assistance Entitlement	84.391	15003	3,905,366
Preschool Grants	84.173A	13430	200,658
ARRA Preschool Grants	84.392	15000	207,955
Preschool Local Entitlement	84.027A	13682	488,067
Preschool Staff Development	84.173A	13431	6,503
ARRA Preschool Local Entitlement	84.391	15002	444,027
Subtotal Special Education Cluster (IDEA)			13,165,765
Early Intervention Grants	84.181	23761	51,074
Carl D. Perkins Vocational and Technical Education Act			
Adult Education	84.048	14893	207,611
Passed through California Department of Rehabilitation:			
Vocational Rehabilitation Cluster:			
Workability II, Transition Partnership	84.126	10006	532,836
ARRA: Workability II, Transition Partnership	84.390A	10006	135,380
Subtotal Vocational Rehabilitation Cluster			668,216
Total U.S. Department of Education			21,635,561

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Billing Options	93.778	10013	\$ 663,259
Passed through Orange County Department of Education (OCDE):			
Medi-Cal Administrative Activities	93.778	10060	846,578
Subtotal U.S. Department of Health and Services			<u>1,509,837</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Program Cluster:			
National School Lunch Program	10.555	13396	3,753,734
Basic School Breakfast Program	10.553	13390	139,929
Especially Needy Breakfast Program	10.553	13526	526,500
Commodities	10.555	13396	374,905
Subtotal Child Nutrition Program Cluster			<u>4,795,068</u>
Passed through OCDE:			
Forest Reserve Fund	10.665	10044	1,148
Subtotal U.S. Department of Agriculture			<u>4,796,216</u>
Total Expenditures of Federal Awards			<u><u>\$ 27,941,614</u></u>

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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, ten middle schools, two kindergarten through eighth grade schools, six high schools, one continuation high school, one adult education 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>
Jack R. Brick	President	2012
Dr Gary Pritchard	Vice President	2012
John Alpay	Clerk	2012
Ellen M. Addonizio	Member	2014
Anna Bryson	Member	2014
Lynn Hatton	Member	2014
Sue Palazzo	Member	2012

ADMINISTRATION

Dr. Joseph M. Farley	Superintendent
Ron Lebs	Deputy Superintendent, Business and Support Services
Jodee Brentlinger	Assistant Superintendent, Personnel Services
Julie Hatchel	Assistant Superintendent, Education

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2011

		Final Report	
		Revised Second Period Report	Annual Report
ELEMENTARY			
Kindergarten		3,368	3,367
First through third		10,806	10,809
Fourth through sixth		11,301	11,312
Seventh and eighth		7,634	7,626
Home and hospital		3	3
Special education		726	728
Total Elementary		33,838	33,845
SECONDARY			
Regular classes		14,994	14,901
Continuation education		195	196
Home and hospital		3	3
Special education		337	325
Community day school		8	9
Total Secondary		15,537	15,434
Total K-12		49,375	49,279

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	Actual	Minutes	Minutes	Actual	Traditional	Multitrack	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,500	30,625	36,000	35,000	36,076	180	-	Complied
Grades 1 - 3	45,340	44,081	50,400	49,000				
Grade 1					50,985	180	-	Complied
Grade 2					50,985	180	-	Complied
Grade 3					50,985	180	-	Complied
Grades 4 - 6	53,356	51,874	54,000	52,500				
Grade 4					53,795	180	-	Complied
Grade 5					53,795	180	-	Complied
Grade 6					60,254	180	-	Complied
Grades 7 - 8	53,245	51,766	54,000	52,500				
Grade 7					60,254	180	-	Complied
Grade 8					60,254	180	-	Complied
Grades 9 - 12	58,998	57,359	64,800	63,000				
Grade 9					63,963	180	-	Complied
Grade 10					63,963	180	-	Complied
Grade 11					63,963	180	-	Complied
Grade 12					63,963	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, 2011

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

	General Fund
FUND BALANCE	
Balance, June 30, 2011, As Restated	\$ 30,029,839
Decrease in:	
Other asset	(61,196,667)
Current loan	60,000,000
Balance, June 30, 2011, Audited Financial Statement	<u>\$ 28,833,172</u>

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND ⁵				
Revenues	\$ 360,626,588	\$ 375,783,868	\$ 363,526,658	\$ 409,052,606
Other sources	2,758,297	5,612,427	9,639,185	1,890,391
Total Revenues and Other Sources	363,384,885	381,396,295	373,165,843	410,942,997
Expenditures	376,203,367	380,509,510	375,722,985	401,619,354
Other uses and transfers out	-	-	-	2,050,000
Total Expenditures and Other Uses	376,203,367	380,509,510	375,722,985	403,669,354
INCREASE (DECREASE) IN FUND BALANCE	\$ (12,818,482)	\$ 886,785	\$ (2,557,142)	\$ 7,273,643
ENDING FUND BALANCE	\$ 14,629,049	\$ 27,447,531	\$ 26,560,746	\$ 29,117,888
AVAILABLE RESERVES ²	\$ 8,886,086	\$ 17,908,120	\$ 17,659,128	\$ 7,893,009
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.36%	4.81%	4.81%	2.00%
LONG-TERM OBLIGATIONS	N/A	\$ 112,023,452	\$ 113,618,038	\$ 112,037,160
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	48,975	49,375	49,828	49,733

The General Fund balance has decreased by \$1,670,357 over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$12,818,482 (46.7 percent). 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 operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have decreased by \$13,708 over the past two years.

Average daily attendance has decreased by 358 over the past two years. An additional decline of 400 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$8,239,482, \$8,291,672, and \$9,603,373 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ Excludes adult education and ROP ADA.

⁵ General Fund amounts do not include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Postemployment Benefits.

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2011

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Journey Charter School	No
Opportunities 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, 2011

	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	\$ 1,468,969	\$ 2,912,150	\$ 5,081,209	\$ 4,295,968
Receivables	528,493	1,023,347	3,927	4,905
Due from other funds	965	3,531	-	-
Stores inventories	-	139,171	-	-
Total Assets	\$ 1,998,427	\$ 4,078,199	\$ 5,085,136	\$ 4,300,873
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 465,367	\$ 849,876	\$ 430	\$ 16,517
Due to other funds	316,908	150,429	-	2,375
Deferred revenue	234,629	247,438	-	-
Total Liabilities	1,016,904	1,247,743	430	18,892
Fund Balances:				
Nonspendable	-	151,921	-	-
Restricted	981,523	2,678,535	5,084,706	4,281,981
Assigned	-	-	-	-
Total Fund Balances	981,523	2,830,456	5,084,706	4,281,981
Total Liabilities and Fund Balances	\$ 1,998,427	\$ 4,078,199	\$ 5,085,136	\$ 4,300,873

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 2,105,756	\$ 5,471,494	\$ 3,922,347	\$ 2,467,917	\$ 27,725,810
1,633	4,650	-	15,192	1,582,147
-	-	-	-	4,496
-	-	-	-	139,171
<u>\$ 2,107,389</u>	<u>\$ 5,476,144</u>	<u>\$ 3,922,347</u>	<u>\$ 2,483,109</u>	<u>\$ 29,451,624</u>
\$ 178	\$ 510	\$ -	\$ 3,350	\$ 1,336,228
-	-	-	-	469,712
-	78,117	-	-	560,184
<u>178</u>	<u>78,627</u>	<u>-</u>	<u>3,350</u>	<u>2,366,124</u>
-	-	-	-	151,921
2,107,211	-	3,922,347	2,479,759	21,536,062
-	5,397,517	-	-	5,397,517
<u>2,107,211</u>	<u>5,397,517</u>	<u>3,922,347</u>	<u>2,479,759</u>	<u>27,085,500</u>
<u>\$ 2,107,389</u>	<u>\$ 5,476,144</u>	<u>\$ 3,922,347</u>	<u>\$ 2,483,109</u>	<u>\$ 29,451,624</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Postemployment Benefits
REVENUES					
Federal sources	\$ -	\$ -	\$ 4,795,068	\$ -	\$ -
Other State sources	-	2,662,166	367,899	-	-
Other local sources	-	2,708,980	5,976,876	-	-
Total Revenues	-	5,371,146	11,139,843	-	-
EXPENDITURES					
Current					
Instruction	-	3,850,268	-	-	-
Instruction-related activities:					
Supervision of instruction	-	615,528	-	-	-
School site administration	-	600,186	-	-	-
Pupil services:					
Food services	-	30,744	10,118,587	-	-
All other pupil services	-	239,297	-	-	-
Administration:					
All other administration	-	171,889	294,131	-	-
Plant services	-	217,483	-	-	-
Facility acquisition and construction	-	-	-	-	-
Enterprise services	-	-	908	-	-
Debt service					
Principal	-	12,586	-	-	-
Interest and other	-	1,967	-	-	-
Total Expenditures	-	5,739,948	10,413,626	-	-
Excess (Deficiency) of					
Revenues Over Expenditures	-	(368,802)	726,217	-	-
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Net Financing Sources (Uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	(368,802)	726,217	-	-
Fund Balances - Beginning	594,161	1,350,325	2,104,239	1,851,902	77,522
Prior Period Restatement	(594,161)	-	-	(1,851,902)	(77,522)
Fund Balances - Ending	\$ -	\$ 981,523	\$ 2,830,456	\$ -	\$ -

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve		Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
			Fund for Capital Outlay Projects				
\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ 4,795,068
-	-	-	-		39,945	-	3,070,010
31,218	718,219	9,597	2,837,246		4,902,630	142,655	17,327,421
31,218	718,219	9,597	2,837,246		4,942,575	142,655	25,192,499
-	-	-	-		-	-	3,850,268
-	-	-	-		-	-	615,528
-	-	-	-		-	-	600,186
-	-	-	-		-	-	10,149,331
-	-	-	-		-	-	239,297
-	-	-	-		-	-	466,020
-	-	-	71,731		-	-	289,214
31,700	241,566	12,102	5,652		-	-	291,020
-	-	-	-		-	-	908
-	77,254	-	-		2,725,000	885,000	3,699,840
-	3,933	-	-		1,987,974	1,225,715	3,219,589
31,700	322,753	12,102	77,383		4,712,974	2,110,715	23,421,201
(482)	395,466	(2,505)	2,759,863		229,601	(1,968,060)	1,771,298
-	-	-	-		-	1,817,430	1,817,430
-	-	-	(1,575,066)		-	-	(1,575,066)
-	-	-	(1,575,066)		-	1,817,430	242,364
(482)	395,466	(2,505)	1,184,797		229,601	(150,630)	2,013,662
5,085,188	3,886,515	2,109,716	4,212,720		3,692,746	2,630,389	27,595,423
-	-	-	-		-	-	(2,523,585)
\$ 5,084,706	\$ 4,281,981	\$ 2,107,211	\$ 5,397,517		\$ 3,922,347	\$ 2,479,759	\$ 27,085,500

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, 2011

(Amounts in thousands)

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 25,071	6.7	\$ 25,323	7.0	\$ 38,584	9.4
State and local revenue included in revenue limit	262,949	70.0	249,192	68.5	282,608	69.1
Other State revenue	79,019	21.0	80,527	22.2	77,945	19.1
Other local revenue	8,745	2.3	8,485	2.3	9,916	2.4
Total Revenues	<u>375,784</u>	<u>100.0</u>	<u>363,527</u>	<u>100.0</u>	<u>409,053</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	189,803	50.5	191,131	52.6	208,877	51.1
Classified salaries	55,414	14.7	56,844	15.6	58,276	14.2
Employee benefits	83,168	22.1	82,707	22.8	82,917	20.3
Total Salaries and Benefits	328,385	87.3	330,682	91.0	350,070	85.6
Books and supplies	10,018	2.7	9,299	2.6	11,776	2.9
Contracts and operating expenses	29,217	7.8	26,570	7.3	27,895	6.8
Capital outlay	2,794	0.7	20	0.0	960	0.2
Other outgo	10,096	2.7	9,152	2.5	10,918	2.7
Total Expenditures	<u>380,510</u>	<u>101.2</u>	<u>375,723</u>	<u>103.4</u>	<u>401,619</u>	<u>98.2</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,726)	(1.2)	(12,196)	(3.4)	7,434	1.8
OTHER FINANCING SOURCES (USES)						
Net Financing Sources (Uses)	<u>5,613</u>	<u>1.5</u>	<u>9,639</u>	<u>2.7</u>	<u>(160)</u>	<u>(0.0)</u>
INCREASE (DECREASE) IN FUND BALANCE	887	<u>0.3</u>	(2,557)	<u>(0.7)</u>	7,274	<u>1.8</u>
FUND BALANCE, BEGINNING	<u>26,561</u>		<u>29,118</u>		<u>21,844</u>	
FUND BALANCE, ENDING	<u>\$ 27,448</u>		<u>\$ 26,561</u>		<u>\$ 29,118</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, 2011

(Dollar amounts in thousands)

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal	\$ 4,795	43.0	\$ 4,756	42.2	\$ 4,537	37.7
State meal program	368	3.3	329	2.9	307	2.6
Food sales	5,868	52.7	6,029	53.4	7,099	59.1
Other	109	1.0	171	1.5	75	0.6
Total Revenues	11,140	100.0	11,285	100.0	12,018	100.0
EXPENDITURES						
Salaries and employee benefits	5,075	45.6	5,343	47.3	5,507	45.8
Food	4,358	39.1	3,942	34.9	4,657	38.8
Supplies	116	1.0	154	1.4	96	0.8
Other	865	7.8	1,676	14.9	1,013	8.4
Total Expenditures	10,414	93.5	11,115	98.5	11,273	93.8
INCREASE IN FUND BALANCE	726	6.5	170	1.5	745	6.2
FUND BALANCE, BEGINNING	1,189		1,189		1,189	
FUND BALANCE, ENDING	\$ 1,189		\$ 1,189		\$ 1,189	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2010-2011		2009-2010		2008-2009	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	1,263,604	49.4	1,352,418	52.0	1,618,091	57.0
Reduced price	218,867	8.6	228,512	8.8	253,060	8.9
Free	1,072,583	42.0	1,022,018	39.2	969,420	34.1
Total Lunches	2,555,054	100.0	2,602,948	100.0	2,840,571	100.0
BREAKFAST						
Paid	100,340	20.7	107,087	21.9	161,422	29.7
Reduced price	41,503	8.6	45,930	9.4	48,032	8.9
Free	343,126	70.7	336,975	68.7	333,417	61.4
Total Breakfast	484,969	100.0	489,992	100.0	542,871	100.0

See accompanying note to supplementary information.

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA State Fiscal Stabilization Funds and Medi-Cal Billing Option funds which have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These 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 Balances:		\$ 30,327,413
ARRA State Fiscal Stabilization Funds	84.394	(2,316,993)
Medi-Cal Billing Options	93.778	(68,806)
Total Schedule of Expenditures of Federal Awards		<u>\$ 27,941,614</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.

Schedule of Instructional Time

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

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
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, 2011, which collectively comprise Capistrano Unified School District's basic financial statements and have issued our report thereon dated December 14, 2011. 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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 2011.

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.

VADUNA, TIDW, DAY & CO. LLP

Rancho Cucamonga, California
December 14, 2011



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

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

Compliance

We have audited Capistrano Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Capistrano Unified School District's major Federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Capistrano Unified School District's internal control over compliance.

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

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

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.

VADIAH, TRANS, DIA + W. LUP

Rancho Cucamonga, California
December 14, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We have audited Capistrano Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Capistrano Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about 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 opinions. 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 compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs, as item 2011-1.

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
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
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

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.

VAJIZINEK, TILINS, DAY & CO. LLP

Rancho Cucamonga, California
December 14, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency (ies) identified?	<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 Section .510(a) of OMB Circular A-133?	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I, Part A Cluster (including ARRA)</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Program Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>84.027, 84.027A, 84.173A, 84.391 (ARRA), 84.392 (ARRA)</u>	<u>Special Education Cluster (IDEA) (including ARRA)</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 838,248</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Qualified</u>
Unqualified for all programs except for the following program which was qualified:	
	<u>Name of Program</u>
	After School Education and Safety

CAPISTRANO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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:

Five Digit Code
40000

AB 3627 Finding Type
State Compliance

2011-1 40000

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

Attendance Records and Reporting

Criteria or Specific Requirements

Compliance requirements mandate that schools maintain adequate source documents supporting the number of students served by the program as reported semi-annually to the California Department of Education (CDE). Additionally, adequate documentation must be maintained which support attendance participation consistent with early release and late start policies.

Condition

There is inadequate documentation indicating actual student participation in the After School Program. Source documents used for recording attendance do not consistently track actual times when students are signing out from the program. The auditor noted 68 instances during the month of October where students have not signed out but were included in the total number of students served.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through review of attendance records from one of five sites for the after school program.

CAPISTRANO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Effect

Conditions identified make the program's attendance recording and reporting procedure difficult. Ultimately, these deficiencies affect the District's ability to report an accurate number of students served to the State in the required semi-annual attendance reports. Additionally, failure to document the sign out times will lead to the likelihood of the District not meeting the "full-day" requirement as identified in the State Audit Guide. The District appears to be unable to demonstrate its compliance with California *Education Code* Sections 8483.1 and 8483(a)(2), with respect to the attendance reporting requirements of after school components of the program. Per *Education Code* Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. CDE may also withhold the grant allocation for a program if the prior year reporting is outstanding.

Cause

It appears that the condition identified has materialized as a result of the absence of standardized attendance recording and reporting procedures in the District's department responsible for administering the program.

Recommendation

The District may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the After School Education and Safety program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues.

District Response

The After School program is administered by two third-party agencies (TPA), the YMCA and CAMCO. The District has reminded the TPAs of the importance of compliance with regards to the attendance issue. The District has begun spot auditing and verifying compliance at all sites.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Federal Award Findings

None reported

Financial Statement Findings

None reported

State Award Findings

2010-1 40000

Attendance Records and Reporting

Criteria or Specific Requirements

Compliance requirements mandate that schools maintain adequate source documents supporting the number of students served by the program as reported semiannually to the California Department of Education (CDE). Additionally, adequate documentation must be maintained which support attendance participation consistent with early release and late start policies.

Condition

There is inadequate documentation indicating actual student participation in the After School Program. Source documents used for recording attendance do not consistently track actual times when students are signing in or out from the program. The auditor noted 198 instances during the month of October where students have signed out without indicating the check out time. The auditor noted 144 instances during the month of October in which students did not sign in/out, but were included in the total number of students served.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through review of attendance records from one of three sites for the after school program.

CAPISTRANO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Effect

Conditions identified make the program's attendance recording and reporting procedure difficult. Ultimately, these deficiencies affect the District ability to report an accurate number of students served to the State in the required semi-annual attendance reports. Additionally, failure to document the sign out times will lead to the likelihood of the District not meeting the "full-day" requirement as identified in the State Audit Guide. The District appears to be unable to demonstrate its compliance with California *Education Code* Sections 8483.1 and 8483(a)(2), with respect to the attendance reporting requirements of after school components of the program. Per *Education Code* Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. CDE may also withhold the grant allocation for a program if the prior year reporting is outstanding.

Cause

It appears that the condition identified has materialized as a result of the absence of standardized attendance recording and reporting procedures in the District's department responsible for administering the program.

Recommendation

The District may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the After School Education and Safety program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues.

Current Status

Not implemented. See current year finding 2011-1.



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, 2011, 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, 2011, on the financial statements of Capistrano Unified School District.

ASSOCIATED STUDENT BODY (ASB)

Newhart Middle School

Observation

During our year-end review of the ASB bank reconciliations, we noted that there was one deposit in transit for the amount of \$11,420 which has not cleared the bank since January 2011.

Recommendation

The District should ensure that bank reconciliations are properly reviewed by a third-party on a timely basis. This review should include procedures to further investigate any significant or unusual items that are not clearing the bank statements.

Junipero Serra Continuation

Observation

During our year-end review of the ASB activity, we noted that the site was unable to provide copies of bank reconciliations performed over the ASB bank account.

Recommendation

All monthly bank reconciliations should be prepared and reviewed in a timely manner. The bank reconciliation process allows the site to ensure the accuracy of recorded transactions and reduces the risk of deficit spending.

MONTHLY TRUST ACCOUNT SUMMARIES/STATEMENTS

District-wide

Observation

The ASB is generally not issuing monthly summary/statement to each of its trust account for all deposits and expenses taking place in a given month. As a result, the trust account advisors are unable to verify if postings made by the ASB bookkeeper are accurate and complete. Additionally, trust account advisors are unable to verify if their internal records regarding their balances are consistent with amounts reported by the ASB bookkeeper in the ASB's accounting records.

Recommendation

Monthly account activity statements should be prepared and the information should be disseminated to site personnel supervising each of the trust accounts. The statement should include a detailed identification of checks disbursed and also a detailed deposit history. The statement should allow trust account advisors to verify whether records maintained by the ASB bookkeeper are consistent with their internal records. Additionally, the statements would facilitate the planning of activities since advisors would have a clear understanding of available funds in their accounts. The site should consider having the advisors signing their copies of statements to ensure that review is actually taking place.

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

VADRING, TRINZ, DUT CO. WD

Rancho Cucamonga, California
December 14, 2011