

**FONTANA UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2011**



FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2011
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities.....	13
Governmental Funds Financial Statements:	
Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Fund Financial Statements:	
Statement of Net Assets.....	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows.....	20
Fiduciary Fund Financial Statements:	
Statement of Net Assets.....	21
Statement of Changes in Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	52
Budgetary Comparison Schedule – Cafeteria Fund	53
Schedule of Funding Progress	54
Notes to the Required Supplementary Information	55

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	56
Schedule of Average Daily Attendance	57
Schedule of Instructional Time	58
Schedule of Financial Trends and Analysis.....	59
Schedule of Expenditures of Federal Awards	60
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	61
Note to the Supplementary Information.....	62

FONTANA UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2011

Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

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*.....63

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.....65

Independent Auditors' Report on State Compliance67

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:

 Summary of Auditors' Results69

 Current Year Audit Findings and Questioned Costs70

 Summary Schedule of Prior Audit Findings74

Management Letter75

Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Education
Fontana Unified School District
Fontana, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fontana Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

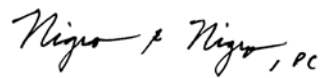
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of Fontana Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and the required supplementary information on pages 52 through 54 are not a required part of the basic financial statements but are supplementary information required by 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 Fontana Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 financial statements taken as a whole.

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

December 7, 2011

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2011

This discussion and analysis of Fontana Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net assets of governmental activities increased by \$28.9 million, or 7.2%.
- Governmental expenses were about \$363.1 million. Revenues were about \$392.0 million.
- The District spent over \$28.9 million in new capital assets during the year. These expenditures were incurred primarily from general obligation bonds.
- The District decreased its outstanding long-term debt by \$5.3 million. This was primarily due to the general obligation bond payments.
- Grades K-12 average daily attendance (ADA) increased by 286, or 0.7%.

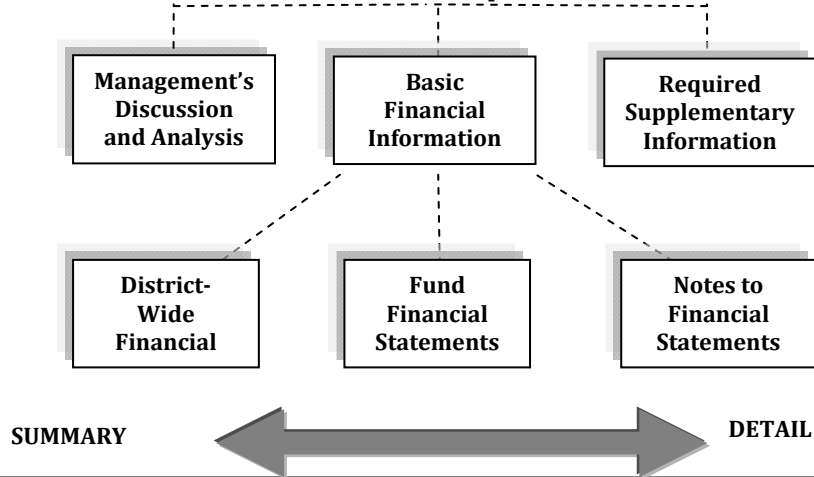
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-wide Statements

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

Fund Financial Statements (continued)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were higher on June 30, 2011, than they were the year before – increasing 7.2% to \$428.2 million. (See Table A-1.)

Table A-1

	Governmental Activities		Variance
	(In millions)		Increase
	2011	2010*	(Decrease)
Current assets	\$ 276.6	\$ 259.3	\$ 17.3
Capital assets	598.0	586.5	11.5
Total assets	874.6	845.8	28.8
Current liabilities	41.0	35.9	5.1
Long-term liabilities	405.4	410.6	(5.2)
Total liabilities	446.4	446.5	(0.1)
Net assets			
Invested in capital assets, net of related debt	335.3	340.3	(5.0)
Restricted	88.4	56.4	32.0
Unrestricted	4.5	2.6	1.9
Total net assets	\$ 428.2	\$ 399.3	\$ 28.9

* As restated

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues increased 11.4% to \$392.0 million (See Table A-2). The increase is due primarily to revenue limit and categorical funding.

The total cost of all programs and services decreased 2.4% to \$363.1 million. The District's expenses are predominantly related to educating and caring for students, 76.8%. The purely administrative activities of the District accounted for just 2.4% of total costs. A significant contributor to the decrease in costs was the District's budget cuts and a decrease in full-time equivalent employees.

Table A-2

	Governmental Activities		Variance
	(In millions)		
	2011	2010*	Increase (Decrease)
Total Revenues	\$ 392.0	\$ 351.9	\$ 40.1
Total Expenses	363.1	372.0	(8.9)
Increase (decrease) in net assets	<u>\$ 28.9</u>	<u>\$ (20.1)</u>	<u>\$ 49.0</u>

* As restated

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$226.0 million, which is above last year's ending restated fund balance of \$214.2 million. The primary cause of the increased fund balance is the additional federal funds received. During 2010-11, spending was frozen for four months.

General Fund Budgetary Highlights

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

- Revenues – decreased by \$41.7 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – decreased \$12.6 million.
- Other non-personnel expenses – decreased \$21.8 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated revenues would fall short of expenditures by about \$13.5 million, the actual results for the year show that revenues exceeded expenditures by roughly \$19.5 million. Actual revenues were \$30.3 million more than anticipated, but expenditures were \$2.8 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2011 that will be carried over into the 2011-12 budget.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010-11 the District had invested \$28.9 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$17.4 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
Land	\$ 58.9	\$ 58.9	\$ -
Improvement of sites	37.7	40.7	(3.0)
Buildings	454.6	364.1	90.5
Equipment	7.3	8.3	(1.0)
Construction in progress	39.5	114.5	(75.0)
Total	<u>\$ 598.0</u>	<u>\$ 586.5</u>	<u>\$ 11.5</u>

Long-Term Debt

At year-end the District had \$405.3 million in general obligation bonds, bond anticipation notes, certificates of participation, QZABs, and employment benefits – a decrease of 1.3% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
General obligation bonds	\$ 217.2	\$ 221.6	\$ (4.4)
Bond anticipation notes	103.0	102.5	0.5
Certificates of participation	46.7	47.8	(1.1)
QZAB	3.5	3.7	(0.2)
Compensated absences	1.5	1.8	(0.3)
Early retirement incentive	10.9	14.9	(4.0)
Other postemployment benefits	22.5	18.3	4.2
Total	<u>\$ 405.3</u>	<u>\$ 410.6</u>	<u>\$ (5.3)</u>

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the *2011-12 Budget Act* on June 30, 2011. The Legislature passed three iterations of the budget bill—one in March and two in June— all using the new majority-vote provision contained in Proposition 25 (an initiative adopted by voters in November 2010). The March version was not sent to the Governor, the first June version was vetoed, and the third budget bill was eventually signed. The Legislature also sent a number of budget related trailer bills to the Governor in both March and June.

Proposition 98

Proposition 98 funding constitutes about 70 percent of total funding for K-12 education. Since the adoption of the *2010-11 Budget Act*, Proposition 98 spending for 2010-11 increased by a net of \$129 million. The cut to basic aid school districts, adopted in March 2011, reduced categorical funding for basic aid districts by an amount equivalent to an 8.9 percent revenue limit reduction. This reduction is equivalent to the base revenue limit reductions that apply to non-basic aid school districts. The reduction (for both basic aid and non-basic aid districts) is maintained in 2011-12. Total K-12 education funding remains relatively flat from 2010-11 to 2011-12. The share covered by local property taxes, however, is significantly higher (largely due to estimated redevelopment agency remittance payments) whereas the share covered by the General Fund is lower.

The 2011-12 budget package includes various “trigger” reductions that would be implemented if estimates of state revenues as of December 2011 are more than \$1 billion lower than budget assumptions, with additional reductions triggered if revenues fall more than \$2 billion below budget assumptions.

If Revenues Fall Somewhat Short of Projections, Certain Community College and Child Care Cuts Triggered. If revenue estimates are \$1 billion to \$2 billion below budget assumptions, the state would reduce community college apportionments by \$30 million and implement a 4 percent across-the-board reduction to child care programs, for savings of \$23 million. If the reductions were triggered, the state also would implement a \$10 per-unit increase on community college fees. The additional revenues from the fee increase would offset the effects of the apportionment reduction on community colleges.

If Revenues Fall Further Below Projections, Certain K-12 Cuts and Additional CCC Cuts Also Triggered. If revised revenue estimates are more than \$2 billion below budget assumptions, up to \$1.9 billion in additional K-12 and community college reductions would be triggered. The K-12 revenue limits would be reduced based on a sliding scale, in proportion to the size of the General Fund shortfall. The revenue limit reductions would be capped at \$1.5 billion—associated with revenue estimates falling \$4 billion or more below budget assumptions. Funding for the Home-to-School Transportation program also would be eliminated effective January 2012 (for half-year savings of \$248 million), and community college apportionments would be further reduced by \$72 million.

K-12 Trigger Also Includes Shorter School Year Provisions. If revised revenue estimates fall \$2 billion below budget estimates, the state also would allow K-12 schools to reduce the school year by an additional seven days in 2011-12. Any reductions in instructional time and accompanying reductions in salaries or benefits, however, would need to be achieved by school districts through the collective bargaining process.

FONTANA UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The budget package continues the state's reliance on payment deferrals to achieve budget solution, deferring an additional \$2.1 billion in K-12 payments and \$129 million in CCC payments from 2011-12 to 2012-13. Proposition 98 payment deferrals now total \$10.4 billion. As a result of these deferrals, 20 percent of funding for Proposition 98-supported programs in 2011-12 will not be paid until 2012-13. In essence, the first \$10 billion in Proposition 98 funding for 2012-13 will pay for services that schools and community colleges will have already provided in 2011-12.

Revenue Limit "Deficit Factor" Still Growing. The state's existing obligation for K-12 revenue limits is also growing. When the state has made a base reduction to K-12 revenue limits and/or has not provided an annual cost-of-living adjustment (COLA), it has chosen to create a deficit factor. In essence, the deficit factor reflects a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the base reductions and foregone COLAs that have occurred over the last four years. Cumulative base revenue limit reductions and foregone revenue limit COLAs total \$8 billion in 2011-12—\$7.9 billion for school districts (resulting in a deficit factor of 19.8 percent) and \$144 million for county offices of education (resulting in a deficit factor of 20 percent).

Mandate Backlog Still Growing. The state's existing backlog of K-14 mandate claims also continues to increase. Although the budget provides \$90 million for the ongoing cost of K-14 mandates, 2011-12 costs are projected to be \$180 million. This underfunding, when coupled with an already large backlog, leaves the state at the end of 2011-12 with \$3.8 billion in unpaid claims.

K-12 Education

Per-pupil programmatic funding decreased by \$117 from 2010-11 to 2011-12, reflecting a 1.5 percent year-over-year reduction. School districts will receive \$522 less per pupil in 2011-12 than in 2007-08. The year-to-year reduction in K-12 programmatic funding is primarily due to the loss of one-time federal funds. Schools in California received \$6 billion in American Recovery and Reinvestment Act (ARRA) funding that could be spent in 2008-09, 2009-10, and 2010-11. School districts will have exhausted these revenues, however, by 2011-12. Many school districts will still have funding available from the federal Education Jobs and Medicaid Assistance Act of 2010, which provided California schools with \$1.2 billion in one-time federal funding to retain school staff and reduce teacher layoffs. These funds, however, are not sufficient to entirely offset the loss of ARRA funding.

The budget package also includes several budget provisions that affect school district financial management and administration.

State Prohibits Districts From Using Summer Layoff Window. The budget package suspends existing law that allows school districts to lay off teachers during the period between five days after the budget is enacted and August 15 if school district revenue limits in the enacted budget do not increase by at least 2 percent. Given that the budget package includes no increases to K-12 revenue limits, the law would have been operative in 2011.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

State Requires Districts to Build Budgets Assuming Flat Year-Over-Year Revenues. The budget package also requires school districts to project the same level of per-pupil funding in 2011-12 as they received in 2010-11 and to maintain staffing and program levels commensurate with those funding levels. The Governor's signing message for the education trailer bill, however, emphasizes that school districts might still need to make reductions due to cost increases, the loss of federal funds, declining enrollment, or other factors. The signing message also states that the law was not intended to interfere with these local school board decisions.

State Suspends Requirement for Districts to Demonstrate Multiyear Solvency. The budget package also temporarily modifies the approval process for school district budgets. Under current law, the county superintendent is required to review and approve a school district's budget to ensure the district can meet its financial obligations in that fiscal year and has a financial plan to satisfy its obligations for the two subsequent years. In 2011-12, a county superintendent would be unable to disapprove a school district's budget based on the district's inability to meet its financial obligations in 2012-13 and 2013-14.

Governor Vetoes Funding for Longitudinal Teacher Data System. The Governor vetoed \$2.1 million in federal funds and \$84,000 in special funds for the California Longitudinal Teacher Integrated Education Data System. Authorized by 2006 legislation, this information system was intended to help the state identify teacher workforce trends; assess future teacher workforce needs; analyze the effectiveness of teacher recruitment, retention, and support programs; and develop related state policies. The Governor's veto leaves no funding for the project in 2011-12 and ends further development of the system.

State Grants Flexibility for Two Additional Years. The March 2011 education trailer bill extends by two additional years most of the flexibility options that the state originally granted to school districts in the February 2009 budget package (including options related to K-3 Class Size Reduction, other categorical programs, and shortened school year).

All of these factors were considered in preparing the Fontana Unified School District budget for the 2011-12 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Fiscal Services Office at (909) 357-5000.

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Net Assets**June 30, 2011*

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	\$ 169,081,673
Investments	11,547,352
Accounts receivable	90,878,619
Inventories	123,945
Prepaid expenses	4,986,935
Total current assets	<u>276,618,524</u>
Capital assets:	
Land	58,877,302
Improvement of sites	59,667,344
Buildings	587,015,559
Equipment	31,936,879
Construction in progress	39,485,306
Less accumulated depreciation	<u>(178,959,294)</u>
Total capital assets, net of depreciation	<u>598,023,096</u>
 Total assets	 <u>874,641,620</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	39,417,029
Deferred revenue	1,653,005
Total current liabilities	<u>41,070,034</u>
Long-term liabilities:	
Portion due or payable within one year	15,198,248
Portion due or payable after one year	390,186,299
Total long-term liabilities	<u>405,384,547</u>
 Total liabilities	 <u>446,454,581</u>
 NET ASSETS	
Invested in capital assets, net of related debt	335,301,678
Restricted for:	
Capital projects	54,715,659
Debt service	16,772,380
Categorical programs	16,869,313
Unrestricted	4,528,009
 Total net assets	 <u>\$ 428,187,039</u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instructional Services:					
Instruction	\$ 198,093,943	\$ 1,308,586	\$ 51,145,867	\$ 23,549,052	\$ (122,090,438)
Instruction-Related Services:					
Supervision of instruction	18,340,233	396,442	19,853,373	-	1,909,582
Instructional library, media and technology	3,292,911	-	-	-	(3,292,911)
School site administration	20,544,511	8,751	213,481	-	(20,322,279)
Pupil Support Services:					
Home-to-school transportation	3,727,769	14,886	1,391,762	-	(2,321,121)
Food services	16,632,960	2,355,422	16,681,460	-	2,403,922
All other pupil services	18,380,417	21,654	5,032,955	-	(13,325,808)
General Administration Services:					
Data processing services	4,233,464	-	241,336	-	(3,992,128)
Other general administration	4,546,268	101,395	2,099,422	-	(2,345,451)
Plant services	40,251,761	808,251	1,233,269	-	(38,210,241)
Ancillary services	21,001	-	1,461	-	(19,540)
Community services	802,196	831,420	83,684	-	112,908
Interest on long-term debt	16,314,559	-	-	-	(16,314,559)
Other outgo	574,046	282,657	32,366	-	(259,023)
Depreciation (unallocated)	17,408,382	-	-	-	(17,408,382)
Total Governmental Activities	\$ 363,164,421	\$ 6,129,464	\$ 98,010,436	\$ 23,549,052	\$ (235,475,469)

General Revenues:

Property taxes	26,455,262
Federal and state aid not restricted to specific purpose	230,870,660
Interest and investment earnings	1,303,152
Interagency revenues	1,500
Miscellaneous	5,697,782
Total general revenues	264,328,356
Change in net assets	28,852,887
Net assets, July 1, 2010, as originally stated	398,496,794
Adjustment for restatement	837,358
Net assets - July 1, 2010, as adjusted	399,334,152
Net assets, June 30, 2011	\$ 428,187,039

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2011

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 34,943,644	\$ 6,680,657	\$ 59,118,873	\$ 7,429,278	\$ 49,961,844	\$ 158,134,296
Investments	-	-	-	-	11,547,352	11,547,352
Accounts receivable	85,814,457	4,164,125	132,798	40,038	698,000	90,849,418
Due from other funds	1,487,636	24,184	299	23,646,394	13,043,550	38,202,063
Inventories	41,322	82,623	-	-	-	123,945
Prepaid expenditures	157,261	-	-	-	-	157,261
Total Assets	\$ 122,444,320	\$ 10,951,589	\$ 59,251,970	\$ 31,115,710	\$ 75,250,746	\$ 299,014,335
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 29,736,107	\$ 247,870	\$ 1,940,441	\$ 5,977	\$ 986,935	\$ 32,917,330
Due to other funds	36,898,925	1,092,015	1,164	-	393,625	38,385,729
Deferred revenue	1,477,299	-	-	-	175,706	1,653,005
Total Liabilities	68,112,331	1,339,885	1,941,605	5,977	1,556,266	72,956,064
Fund Balances						
Nonspendable	273,583	93,753	-	-	-	367,336
Restricted	16,869,313	-	57,310,365	31,109,733	68,981,336	174,270,747
Committed	-	-	-	-	4,352,837	4,352,837
Assigned	28,181,534	9,517,951	-	-	360,307	38,059,792
Unassigned	9,007,559	-	-	-	-	9,007,559
Total Fund Balances	54,331,989	9,611,704	57,310,365	31,109,733	73,694,480	226,058,271
Total Liabilities and Fund Balances	\$ 122,444,320	\$ 10,951,589	\$ 59,251,970	\$ 31,115,710	\$ 75,250,746	\$ 299,014,335

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2011

Total fund balances - governmental funds \$ 226,058,271

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

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

Capital assets at historical cost:	776,982,390	
Accumulated depreciation:	<u>(178,959,294)</u>	
Net:		598,023,096

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 4,829,674

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was: (3,364,704)

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

General obligation bonds payable	217,242,041	
Bond anticipation notes payable	103,042,666	
Certificates of participation payable	46,676,561	
QZAB bonds payable	3,491,592	
Compensated absences	1,499,051	
Supplemental early retirement	10,895,098	
Other postemployment benefits payable	<u>22,537,538</u>	
Total		(405,384,547)

Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 8,025,249

Total net assets - governmental activities \$ 428,187,039

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2011

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
General Revenues:						
Property taxes	\$ 9,231,902	\$ -	\$ -	\$ -	\$ 17,223,360	\$ 26,455,262
Federal and state aid not restricted to specific purpose	230,563,300	-	-	-	307,360	230,870,660
Earnings on investments	162,127	-	764,210	-	376,815	1,303,152
Interagency revenues	1,500	-	-	-	-	1,500
Miscellaneous	1,040,713	-	-	-	4,657,069	5,697,782
Program Revenues:						
Charges for services	2,063,465	2,355,422	-	-	1,710,577	6,129,464
Operating grants and contributions	74,897,430	17,612,457	-	33,808	4,793,443	97,337,138
Capital grants and contributions	-	-	-	23,549,052	-	23,549,052
Total Revenues	317,960,437	19,967,879	764,210	23,582,860	29,068,624	391,344,010
EXPENDITURES						
Instructional Services:						
Instruction	190,587,610	-	-	-	5,098,878	195,686,488
Instruction-Related Services:						
Supervision of instruction	15,308,558	-	-	-	2,783,708	18,092,266
Instructional library, media and technology	3,221,059	-	-	-	-	3,221,059
School site administration	19,481,891	-	-	-	513,127	19,995,018
Pupil Support Services:						
Home-to-school transportation	3,668,026	-	-	-	-	3,668,026
Food services	1,306	16,465,813	-	-	-	16,467,119
All other pupil services	17,758,656	-	-	-	377,232	18,135,888
Ancillary services	21,001	-	-	-	-	21,001
Community services	802,196	-	-	-	-	802,196
General Administration Services:						
Data processing services	4,171,237	-	-	-	-	4,171,237
Other general administration	8,430,077	691,952	-	-	423,152	9,545,181
Plant services	34,561,590	153,469	3,923,573	5,976	1,165,351	39,809,959
Facility acquisition and construction	310,763	73,685	24,566,628	3,207	3,415,785	28,370,068
Other outgo:						
Transfers between agencies	29,192	-	-	-	-	29,192
Debt service - issuance costs	57,850	-	-	-	157	58,007
Debt service - principal	23,712	-	-	-	4,919,300	4,943,012
Debt service - interest	-	-	2,840,000	-	13,616,072	16,456,072
Total Expenditures	298,434,724	17,384,919	31,330,201	9,183	32,312,762	379,471,789
Excess (Deficiency) of Revenues Over (Under) Expenditures	19,525,713	2,582,960	(30,565,991)	23,573,677	(3,244,138)	11,872,221
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	-	-	-	17,978	2,103,610	2,121,588
Interfund transfers out	(2,102,407)	-	-	(1,203)	(17,978)	(2,121,588)
Total Other Financing Sources and Uses	(2,102,407)	-	-	16,775	2,085,632	-
Net Change in Fund Balances	17,423,306	2,582,960	(30,565,991)	23,590,452	(1,158,506)	11,872,221
Fund Balances, July 1, 2010, as originally stated	36,071,325	7,028,744	87,876,356	7,519,281	74,852,986	213,348,692
Adjustments for Restatement	837,358	-	-	-	-	837,358
Fund Balances, July 1, 2010, as restated	36,908,683	7,028,744	87,876,356	7,519,281	74,852,986	214,186,050
Fund Balances, June 30, 2011	\$ 54,331,989	\$ 9,611,704	\$ 57,310,365	\$ 31,109,733	\$ 73,694,480	\$ 226,058,271

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ 11,872,221

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

Capital Outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	28,128,327	
Depreciation expense	<u>(17,408,382)</u>	
Net:		10,719,945

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets at their fair market value on the date of donation. The fair market value of capital assets donated was: 673,298

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (12,221)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were: 4,943,012

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

Issue costs incurred during the period	(58,007)	
Issue costs amortized for the period:	<u>486,847</u>	
Net:		(428,840)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 3,150,008

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (2,849,878)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (158,617)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 304,642

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time. This year, liabilities increased by: 4,000,613

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statements of activities costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was: (4,243,618)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 882,322

Change in net assets of governmental activities \$ 28,852,887

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Proprietary Fund
June 30, 2011

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 10,947,377
Accounts receivable	29,201
Due from other funds	<u>200,206</u>
 Total Assets	 <u>11,176,784</u>
 LIABILITIES	
Estimated liability for open claims and IBNRs	2,986,943
Accounts payable	148,052
Due to other funds	<u>16,540</u>
 Total liabilities	 <u>3,151,535</u>
 NET ASSETS	
Unrestricted	<u>8,025,249</u>
 Total net assets	 <u><u>\$ 8,025,249</u></u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Fund
For the Fiscal Year Ended June 30, 2011*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 2,428,254
Other local revenues	<u>33,079</u>
Total operating revenues	<u>2,461,333</u>
OPERATING EXPENSES	
Payments for personnel costs	245,984
Payments for materials and supplies	3,751
Payments for IBNR, claims and other operating expenditures	<u>1,427,601</u>
Total operating expenses	<u>1,677,336</u>
Operating Income	783,997
NON-OPERATING REVENUES	
Interest income	<u>98,325</u>
Change in Net Assets	882,322
Net Assets, June 30, 2010	<u>7,142,927</u>
Net Assets, June 30, 2011	<u><u>\$ 8,025,249</u></u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2011

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Self-insurance premiums	\$ 2,428,254
Other operating transfers	6,880,516
Cash received from other sources	26,252
Cash paid for operating expenses	<u>(1,622,462)</u>
Net cash provided by operating activities	<u>7,712,560</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>88,832</u>
Net cash provided by investing activities	<u>88,832</u>
Net increase in cash	7,801,392
Cash, June 30, 2010	<u>3,145,985</u>
Cash, June 30, 2011	<u>\$ 10,947,377</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 783,997
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(6,827)
Decrease in amounts due from other funds	6,880,516
Decrease in accounts payable and estimated claims liability	72,952
Increase in amounts due to other funds	<u>(18,078)</u>
Net cash provided by operating activities	<u>\$ 7,712,560</u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Fund
June 30, 2011

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,247,482	\$ 445	\$ 1,247,927
Investments	-	9,552,503	9,552,503
Accounts receivable	5,885	1	5,886
Miscellaneous	8,402	-	8,402
Inventories - supplies and materials	85,564	-	85,564
Prepays	3,093	-	3,093
Scholarship	119,587	-	119,587
Total assets	<u>\$ 1,470,013</u>	<u>9,552,949</u>	<u>11,022,962</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 30,828	8,093,804	8,124,632
Due to student groups	1,439,185	-	1,439,185
Total liabilities	<u>\$ 1,470,013</u>	<u>8,093,804</u>	<u>9,563,817</u>
NET ASSETS			
Unrestricted		<u>1,459,145</u>	<u>1,459,145</u>
Total net assets		<u>\$ 1,459,145</u>	<u>\$ 1,459,145</u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Net Assets – Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 277,045
Increase in fair value of investments	393,714
In-district contributions	4,214,285
Total Additions	4,885,044
DEDUCTIONS	
Operating expenditures	4,688,883
Total Deductions	4,688,883
Change in net assets	196,161
Net assets held in trust - July 1, 2010	1,262,984
Net assets held in trust - June 30, 2011	<u>\$ 1,459,145</u>

The notes to financial statements are an integral part of this statement.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

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

Financing Authority

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

Community Facilities Districts

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Financial Presentation

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the component units within the Capital Projects Fund for Blended Component Units. Fixed assets acquired or constructed by the component units are included in the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

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

Manifestations of Oversight

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

Accountability of Fiscal Matters

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

Scope of Public Service

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

C. Basis of Presentation

Government-wide Financial Statements

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-wide Financial Statements (continued)

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

Fund Financial Statements

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions

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

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

Deferred revenue

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

Expenses/expenditures

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Governmental Fund Type Definitions

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

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Major Governmental Funds

The District maintains the following major governmental funds:

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

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

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

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

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

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

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

Deferred Maintenance Fund: This fund is used for the purpose of major repair or replacement of District property.

Capital Projects Funds:

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

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

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

Debt Service Fund:

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash

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

2. Stores Inventories

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

3. Capital Assets

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

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

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

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

4. Deferred Revenue

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

5. Compensated Absences

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences (continued)

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

6. Long-Term Obligations

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

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

7. Fund Balance Classifications

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. Fund Balance Classifications (continued)

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

8. Net Assets

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

I. Property Tax

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

J. Use of Estimates

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

K. New GASB Pronouncements

During the 2010-11 fiscal year, the following GASB Pronouncements became effective for the District:

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions:* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. More information about this Statement is reported in Note 1.H.7.

GASB Statement No.59, *Financial Instruments Omnibus:* The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is not expected to significantly impact the District.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are reported at fair value and consisted of the following:

	Rating	Governmental Activities			Fiduciary Funds
		Governmental Funds	Proprietary Fund	Total	
Pooled Funds:					
Cash in County Treasury		\$ 158,048,166	\$ 10,797,377	\$ 168,845,543	\$ 445
Total Pooled Funds		158,048,166	10,797,377	168,845,543	445
Deposits:					
Cash on hand and in banks		-	-	-	1,247,482
Cash in revolving fund		86,130	150,000	236,130	-
Total Deposits		86,130	150,000	236,130	1,247,482
Total Cash		\$ 158,134,296	\$ 10,947,377	\$ 169,081,673	\$ 1,247,927
Investments:					
US Bank Mmkt 4	A-1+	\$ 11,547,352	\$ -	\$ 11,547,352	\$ -
Benefit-Trust:	AA-/A-1+				
Delaware diversified income fund		-	-	-	446,893
Legg Mason bw golbal opps bd is gobsx		-	-	-	205,904
Metropolitan west total return bond I		-	-	-	439,464
Oppenheimer cl y		-	-	-	218,164
Prudential total return bond z		-	-	-	446,660
Templeton global bond		-	-	-	402,067
Thornburg investment income builder I		-	-	-	53,395
Western asset funds non-us opp I		-	-	-	462,492
Blackrock equity dividend I		-	-	-	838,162
Brandes instl international equity I		-	-	-	644,902
Cohen & Steers instl realty shares		-	-	-	424,871
Jhancock classic value I		-	-	-	842,589
Hartford capital appreciation y		-	-	-	692,302
Hartford midcap y		-	-	-	315,474
Nuveen tradewinds calue opportunities I		-	-	-	402,315
Nuveen tradewinds global all-cap I		-	-	-	605,519
Prudential global real estate z		-	-	-	271,268
Royce global value inmvt		-	-	-	911,770
Royce special equity instl		-	-	-	318,624
Thornburg international value I		-	-	-	597,459
Various		-	-	-	12,209
Total Investments		\$ 11,547,352	\$ -	\$ 11,547,352	\$ 9,552,503

Investment security ratings reported as of June 30, 2011 are defined by Standard and Poors.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (continued)

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2011, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

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

As of June 30, 2011, \$839,379 of the District's bank balance of \$1,598,789 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

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

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2011*

NOTE 2 – CASH AND INVESTMENTS (continued)

Maturities of investments held at June 30, 2011 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Mmkt 4	\$ 11,547,352	\$ 11,547,352	\$ -
Benefit-Trust:			
Delaware diversified income fund	446,893	446,893	-
Legg Mason bw golbal opps bd is gobsx	205,904	205,904	-
Metropolitan west total return bond I	439,464	439,464	-
Oppenheimer cl y	218,164	218,164	-
Prudential total return bond z	446,660	446,660	-
Templeton global bond	402,067	402,067	-
Thornburg investment income builder I	53,395	53,395	-
Western asset funds non-us opp I	462,492	462,492	-
Blackrock equity dividend I	838,162	838,162	-
Brandes instl international equity I	644,902	644,902	-
Cohen & Steers instl realty shares	424,871	424,871	-
Jhancock classic value I	842,589	842,589	-
Hartford capital appreciation y	692,302	692,302	-
Hartford midcap y	315,474	315,474	-
Nuveen tradewinds calue opportunities I	402,315	402,315	-
Nuveen tradewinds global all-cap I	605,519	605,519	-
Prudential global real estate z	271,268	271,268	-
Royce global value inmvt	911,770	911,770	-
Royce special equity instl	318,624	318,624	-
Thornburg international value I	597,459	597,459	-
Various	12,209	12,209	-
Total	<u>\$ 21,099,855</u>	<u>\$ 21,099,855</u>	<u>\$ -</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2011, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had the following investment that represents more than five percent of the District's net investments.

US Bank Mmkt 4 54.7%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 consist of the following:

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Fund	Fiduciary Fund
Federal Government:								
Categorical aid programs	\$ 5,267,458	\$ 3,709,350	\$ -	\$ -	\$ 286,072	\$ 9,262,880	\$ -	\$ -
State Government:								
Revenue limit	56,085,752	-	-	-	-	56,085,752	-	-
Lottery	2,766,207	-	-	-	-	2,766,207	-	-
Special education	5,692,885	-	-	-	331,433	6,024,318	-	-
Categorical aid programs	2,831,057	-	-	-	-	2,831,057	-	-
Other state resources	3,128,515	421,882	-	-	-	3,550,397	-	-
Local:								
Other local resources	9,240,511	-	-	-	-	9,240,511	-	-
Interest	76,572	31,040	132,798	40,038	73,828	354,276	29,201	1
Miscellaneous	725,500	1,853	-	-	6,667	734,020	-	-
Total	\$ 85,814,457	\$ 4,164,125	\$ 132,798	\$ 40,038	\$ 698,000	\$ 90,849,418	\$ 29,201	\$ 1

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 4 - INTERFUND TRANSACTIONS

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

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2011 are as follows:

	Due From Other Funds						Total
	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 20,093	\$ -	\$ 23,646,394	\$ 13,043,189	\$ 189,249	\$ 36,898,925
Cafeteria Fund	1,086,415	-	-	-	-	5,600	1,092,015
Building Fund	1,164	-	-	-	-	-	1,164
Non-Major Governmental Funds	383,558	4,050	299	-	361	5,357	393,625
Proprietary Fund	16,499	41	-	-	-	-	16,540
Total	\$ 1,487,636	\$ 24,184	\$ 299	\$ 23,646,394	\$ 13,043,550	\$ 200,206	\$ 38,402,269

General Fund due to Child Development Fund for interest	\$ 8,379
General Fund due to Cafeteria Fund for catering charges	5,431
General Fund due to Cafeteria Fund for interest	14,662
General Fund due to Deferred Maintenance Fund for deferred maintenance allowance	1,438,037
General Fund due to Capital Facilities Fund for interest	27,893
General Fund due to Capital Facilities Fund for expense correction	431
General Fund due to County School Facilities Fund for repayment of temporary loan	23,600,000
General Fund due to County School Facilities Fund for interest	46,394
General Fund due to Special Reserve Fund for Capital Outlay Projects for repayment of temporary loan	11,400,000
General Fund due to Special Reserve Fund for Capital Outlay Projects for interest	112,664
General Fund due to Capital Project Fund for Blended Component Units for interest	55,785
General Fund due to Self Insurance Fund for suspense transfers	158,236
General Fund due to Self Insurance Fund for interest	31,013
Adult Education Fund due to General Fund for suspense transfers	9,878
Adult Education Fund due to General Fund for operating costs, fund correction, and indirect costs, and tier III sweep	109,738
Adult Education Fund due to Self Insurance Fund for suspense transfer	482
Child Development Fund due to General Fund for First 5 Program	1,100
Child Development Fund due to General Fund for suspense transfers	134,659
Child Development Fund due to General Fund for funds correction	128
Child Development Fund due to General Fund for Indirect costs and stores inventory	91,076
Child Development Fund due to Cafeteria Fund for catering charges	4,050
Child Development Fund due to Self Insurance Fund for suspense transfers	4,875
Cafeteria Fund due to General Fund for suspense transfers	135,857
Cafeteria Fund due to General Fund for fuel charges, retiree benefits, and vehicle supplies and labor	177,445
Cafeteria Fund due to General Fund for PERS reduction, account correction, and indirect costs	773,113
Cafeteria Fund due to Self Insurance Fund for suspense transfers	5,600
Building Fund due to General Fund for account corrections	1,164
Capital Facilities Fund due to General Fund for developer fees	36,979
Capital Project Fund for Blended Component Units due to Capital Facilities Fund for account correction	361
Debt Service Fund due to Building Fund for interest on BAN	299
Self Insurance Fund due to General Fund for suspense transfers	5,690
Self Insurance Fund due to General Fund for benefits	10,809
Self Insurance Fund due to Cafeteria Fund for benefits	41
Total	\$ 38,402,269

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 4 - INTERFUND TRANSACTIONS

B. Interfund Transfers

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

Interfund transfers for the 2010-11 fiscal year are as follows:

	Transfers From Other Funds		Total
	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 2,102,407	\$ 2,102,407
County School Facilities Fund	-	1,203	1,203
Non-Major Governmental Funds	17,978	-	17,978
Total	<u>\$ 17,978</u>	<u>\$ 2,103,610</u>	<u>\$ 2,121,588</u>
General Fund transfer to Adult Education Fund for apportionment transfer			\$ 664,370
General Fund transfer to Deferred Maintenance for Tier III transfer			1,438,037
Capital Facilities Fund transfer to County School Facilities for disallowed expense			17,978
County School Facilities Fund to Special Reserve Fund for Capital Outlay Projects to close the account			1,203
Total			<u>\$ 2,121,588</u>

NOTE 5 - FUND BALANCES

Minimum Fund Balance Policy

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

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

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2011

NOTE 5 – FUND BALANCES (continued)

At June 30, 2011, fund balances of the District’s governmental funds are classified as follows:

	General Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:						
Revolving cash	\$ 75,000	\$ 11,131	\$ -	\$ -	\$ -	\$ 86,131
Stores inventories	41,322	82,622	-	-	-	123,944
Prepaid expenditures	157,261	-	-	-	-	157,261
Total Nonspendable	273,583	93,753	-	-	-	367,336
Restricted:						
Categorical programs	16,869,313	-	-	-	-	16,869,313
Capital projects	-	-	57,310,365	31,109,733	52,208,956	140,629,054
Debt service	-	-	-	-	16,772,380	16,772,380
Total Restricted	16,869,313	-	57,310,365	31,109,733	68,981,336	174,270,747
Committed:						
Adult education program	-	-	-	-	313,597	313,597
Deferred maintenance program	-	-	-	-	4,039,240	4,039,240
Total Committed	-	-	-	-	4,352,837	4,352,837
Assigned:						
Other Designations	28,181,534	-	-	-	-	28,181,534
Child Development Fund	-	-	-	-	360,307	360,307
Cafeteria Fund	-	9,517,951	-	-	-	9,517,951
Total Assigned	28,181,534	9,517,951	-	-	360,307	38,059,792
Unassigned:						
Reserve for economic uncertainties	6,013,824	-	-	-	-	6,013,824
Remaining unassigned balances	2,993,735	-	-	-	-	2,993,735
Total Unassigned	9,007,559	-	-	-	-	9,007,559
Total	\$ 54,331,989	\$ 9,611,704	\$ 57,310,365	\$ 31,109,733	\$ 73,694,480	\$ 226,058,271

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011 is shown below:

	Balance, July 1, 2010	Additions	Retirements	Balance, June 30, 2011
Capital assets not being depreciated:				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	114,531,914	17,802,135	92,848,743	39,485,306
Total capital assets not being depreciated	173,409,216	17,802,135	92,848,743	98,362,608
Capital assets being depreciated:				
Improvement of sites	59,276,502	390,842	-	59,667,344
Buildings	484,481,667	102,533,892	-	587,015,559
Equipment	31,066,408	1,105,218	234,747	31,936,879
Total capital assets being depreciated	574,824,577	104,029,952	234,747	678,619,782
Accumulated depreciation for:				
Improvement of sites	(18,597,667)	(3,417,556)	-	(22,015,223)
Buildings	(120,440,908)	(11,925,323)	-	(132,366,231)
Equipment	(22,734,863)	(2,065,503)	(222,526)	(24,577,840)
Total accumulated depreciation	(161,773,438)	(17,408,382)	(222,526)	(178,959,294)
Total capital assets being depreciated, net	413,051,139	86,621,570	12,221	499,660,488
Governmental activity capital assets, net	\$ 586,460,355	\$ 104,423,705	\$ 92,860,964	\$ 598,023,096

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below:

	Balance, July 1, 2010 as restated	Additions	Deductions	Balance, June 30, 2011	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 194,284,080	\$ -	\$ 3,566,672	\$ 190,717,408	\$ 3,931,085
Accreted interest component	15,078,671	2,354,520	2,598,328	14,834,863	2,703,915
Unamortized issuance premium	12,273,729	-	583,959	11,689,770	583,959
Total - Bonds	221,636,480	2,354,520	6,748,959	217,242,041	7,218,959
Bond Anticipation Notes:					
BANs principal repayments	94,997,120	-	-	94,997,120	-
BANs accreted interest component	1,140,384	3,093,686	-	4,234,070	-
BANs unamortized issuance premium	6,352,460	-	2,540,984	3,811,476	2,540,984
Total - BANs	102,489,964	3,093,686	2,540,984	103,042,666	2,540,984
Certificates of Participation:					
Principal repayments	47,180,000	-	1,105,000	46,075,000	1,165,000
Unamortized issuance premium	626,626	-	25,065	601,561	25,065
Total - Certificates of Participation	47,806,626	-	1,130,065	46,676,561	1,190,065
Qualified Zone Academy Bond	3,739,220	-	247,628	3,491,592	247,628
Compensated Absences	1,803,693	-	304,642	1,499,051	-
Supplemental Early Retirement	14,895,711	-	4,000,613	10,895,098	4,000,612
Other Postemployment Benefits	18,293,920	4,243,618	-	22,537,538	-
Totals	\$ 410,665,614	\$ 9,691,824	\$ 14,972,891	\$ 405,384,547	\$ 15,198,248

A. General Obligation Bonds

1992 Refunding General Obligation Bonds

On August 27, 1992, the District issued \$23,668,126 of General Obligation Refunding Bonds. The general obligation bonds were issued to refund approximately \$19,697,500 aggregate initial principal amount of 1990 General Obligation Bonds, Series A. The issuance consisted of: a) Current Interest Bonds of \$17,520,000 with interest rates ranging from 3.0% to 5.65% and fully matured on July 1, 2005 and b) Capital Appreciation Bonds of \$6,148,126 with accretion rates ranging from 6.05% to 6.4% and fully maturing on July 1, 2015. At June 30, 2011, the outstanding principal balance was \$1,964,808.

1997 General Obligation Refunding Bonds, Series A

On June 18, 1997, the District issued \$18,670,227 of 1997 General Obligation Refunding Bonds, Series A. The general obligation bonds were issued to advance refund the District's 1990 General Obligation Bonds, Series B and to pay the initial premium owed. The issuance consisted of: a) Current Interest Bonds of \$10,475,000 with interest rates ranging from 4.3% to 5.95% and fully matured on July 1, 2007 and b) Capital Appreciation Bonds of \$8,195,227 with accretion rates ranging from 6.65% to 7.55% and fully maturing on July 1, 2018. At June 30, 2011, the outstanding principal balance was \$5,471,691.

2004 Refunding

On June 30, 2004, the District issued \$18,930,000 of Refunding General Obligation Bonds with interest rates ranging from 3 percent to 5.25 percent. The general obligation bonds were issued to refund a prior issuance with an original issue amount of \$15,438,160. The final maturity date of the general obligation bond is May 1, 2020. At June 30, 2011, the principal balance outstanding was \$14,170,000.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2006 General Obligation Bonds, Series A

On August 23, 2006, the District issued Election of 2006 General Obligation Bonds, Series A in the amount of \$90,000,000. The general obligation bonds were issued to acquire, construct, renovate and equip certain District facilities. The issuance consisted of: a) Serial Bonds of \$62,500,000 with interest rates ranging from 4.0% to 5.25% and fully maturing on August 1, 2028 and b) Term Bonds of \$27,500,000 with an interest rate of 5.25% and fully maturing on August 1, 2031. At June 30, 2011, the outstanding principal balance was \$82,665,000.

2006 General Obligation Bonds, Series B

On March 26, 2008, the District issued Election of 2006 General Obligation Bonds, Series B in the amount of 70,585,909. The general obligation bonds were issued to acquire, construct, renovate and equip certain District facilities. The issuance consisted of: a) Current Interest Serial Bonds of \$45,040,000 with interest rates ranging from 3.0% to 5.25% and fully maturing on August 1, 2026, b) Current Interest Term Bonds of \$15,750,000 with an interest rate of 5.25% and fully maturing on August 1, 2028, and c) Capital Appreciation Bonds of \$9,795,909 with accretion rates ranging from 5.71% to 7.709% and fully maturing on February 1, 2033. At June 30, 2011, the outstanding principal balance was \$70,485,909.

2009 Refunding

On February 24, 2009, the District issued \$18,110,000 of Refunding General Obligation Bonds with interest rates ranging from 3 percent to 5.25 percent. The original issue premium was \$957,725 and after the payment of issuance related costs of \$396,450, the net proceeds of the general obligation bond were \$18,671,275. The general obligation bonds were issued to refund a prior issuance with an original issue amount of \$18,451,712. The final maturity date of the general obligation bond is May 1, 2022. At June 30, 2011, the principal balance outstanding was \$15,960,000.

The net proceeds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the general obligation bonds were removed from the District's government-wide financial statements. In 2010-11, the principal balance outstanding on the defeased debt was paid in full.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2010		Restatements	Balance, July 1, 2010 as restated		Additions	Deductions	Balance, June 30, 2011
					as originally stated			as restated				
1992R	8/27/1992	2018	3.0%-5.65%	\$ 23,668,126	\$ 2,543,622	\$ -	\$ -	\$ 2,543,622	\$ -	\$ -	578,814	\$ 1,964,808
1997A	6/18/1997	2018	4.40%-5.95%	18,670,227	6,374,549	-	-	6,374,549	-	-	902,858	5,471,691
2004Ref	6/30/2004	2020	3.0%-5.25%	18,930,000	15,230,000	-	-	15,230,000	-	1,060,000	-	14,170,000
2006A	8/23/2006	2031	4.0%-5.25%	90,000,000	82,665,000	-	-	82,665,000	-	-	-	82,665,000
2006B	3/26/2008	2033	3.0% - 5.25%	70,585,909	70,485,909	100,000	-	70,585,909	-	-	100,000	70,485,909
2009R	2/24/2009	2022	3.0% - 5.25%	18,110,000	16,885,000	-	-	16,885,000	-	-	925,000	15,960,000
					<u>\$ 194,184,080</u>	<u>\$ 100,000</u>		<u>\$ 194,284,080</u>	<u>\$ -</u>	<u>\$ 3,566,672</u>		<u>\$ 190,717,408</u>
				Accreted Interest								
				1992A	\$ 5,269,322	\$ -	\$ -	\$ 5,269,322	\$ 507,160	\$ 1,301,186	\$ -	\$ 4,475,296
				1997R	8,451,834	-	-	8,451,834	1,034,483	1,297,142	-	8,189,175
				2006B	1,357,515	-	-	1,357,515	812,877	-	-	2,170,392
					<u>\$ 15,078,671</u>	<u>\$ -</u>		<u>\$ 15,078,671</u>	<u>\$ 2,354,520</u>	<u>\$ 2,598,328</u>		<u>\$ 14,834,863</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2011*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**A. General Obligation Bonds (continued)**

The annual requirements to amortize general obligation bonds outstanding at June 30, 2011 is as follows:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 3,931,085	\$ 11,536,284	\$ 15,467,369
2012-13	4,441,262	11,593,845	16,035,107
2013-14	4,879,566	11,561,090	16,440,656
2014-15	5,457,516	11,574,752	17,032,268
2015-16	5,987,184	10,011,448	15,998,632
2016-21	39,209,885	42,324,833	81,534,718
2021-26	46,865,000	25,601,969	72,466,969
2026-31	64,709,470	24,788,592	89,498,062
2031-33	15,236,440	27,906,061	43,142,501
Total	<u>\$ 190,717,408</u>	<u>\$ 176,898,874</u>	<u>\$ 367,616,282</u>

B. General Obligation Bond Anticipation Notes

On January 7, 2010, the District issued 2009 General Obligation Bond Anticipation Notes in the amount of \$94,997,120. The notes were issued to finance the acquisition, construction, renovation and equipping of certain District facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization. The issue consisted of: a) Current Interest Notes of \$71,000,000 with an interest rate of 4.0% and fully maturing on December 1, 2012 and b) Capital Appreciation Notes of \$23,997,120 with an accretion rate of 11.95% and fully maturing on December 1, 2012. At June 30, 2011, the outstanding principal was \$94,997,120.

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

Fiscal Year	Principal	Interest	Total
2011-12	\$ -	\$ 2,840,000	\$ 2,840,000
2012-13	94,997,120	12,443,880	107,441,000
Total	<u>\$ 94,997,120</u>	<u>\$ 15,283,880</u>	<u>\$ 110,281,000</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2011***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****C. Certificates of Participation**

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

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 1,165,000	\$ 2,060,675	\$ 3,225,675
2012-13	1,235,000	2,015,763	3,250,763
2013-14	1,295,000	1,970,678	3,265,678
2014-15	1,365,000	1,922,466	3,287,466
2015-16	1,435,000	1,870,819	3,305,819
2016-21	8,510,000	8,257,856	16,767,856
2021-26	10,905,000	5,846,012	16,751,012
2026-31	10,330,000	3,260,475	13,590,475
2031-36	9,835,000	1,426,387	11,261,387
Total	<u>\$ 46,075,000</u>	<u>\$ 28,631,131</u>	<u>\$ 74,706,131</u>

D. Qualified Zone Academy Bond

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

Fiscal Year	Scheduled Deposit	Accumulated Interest	Total
2011-12	\$ 247,628	\$ 48,429	\$ 296,057
2012-13	247,627	57,384	305,011
2013-14	247,628	66,591	314,219
2014-15	247,627	76,079	323,706
2015-16	247,627	80,941	328,568
2016-21	1,238,140	685,891	1,924,031
Total	<u>\$ 2,476,277</u>	<u>\$ 1,015,315</u>	<u>\$ 3,491,592</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. Early Retirement Incentives

SERP – 2008

In 2008, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2008. One hundred fifty-one employees, who met the eligibility requirements, elected early retirement. Five payments of \$2,027,164 are being paid over a five year period starting July 2008. The accumulated future liability for the District at June 30, 2011 amounts to \$4,054,328.

SERP – 2009

In 2009, the District also agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2009. Ninety employees, who met the eligibility requirements, elected early retirement. Five payments of \$1,053,022 are being paid over a five year period starting July 2009. The accumulated future liability for the District at June 30, 2011 amounts to \$3,159,066.

SERP – 2010(1)

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. Seventy-one employees, who met the eligibility requirements, elected early retirement. Five payments of \$892,619 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2011 amounts to \$3,570,476.

SERP – 2010(2)

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. One employee, who met the eligibility requirements, elected early retirement. Five payments of \$27,807 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2011 amounts to \$111,228.

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

Fiscal Year	Total
2011-12	\$ 4,000,612
2012-13	4,000,612
2013-14	1,973,448
2014-15	920,426
Total	<u>\$ 10,895,098</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 8 - JOINT VENTURES

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

The JPAs provide property and liability insurance coverage as well as, health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed financial information for the year ended June 30, 2011 for REEP is as follows:

	REEP June 30, 2011 (Unaudited)	ReLiEF June 30, 2011 (Unaudited)
Assets	\$ 26,032,091	\$ 44,807,493
Liabilities	12,075,323	24,894,282
Net Assets	<u>\$ 13,956,768</u>	<u>\$ 19,913,211</u>
Revenues	\$ 185,398,835	\$ 25,726,117
Expenses	180,785,858	23,891,679
Operating Income	4,612,977	1,834,438
Net Non-Operating Income and Expenses	9,343,791	753,549
Change in Net Assets	<u>\$ 13,956,768</u>	<u>\$ 2,587,987</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Construction Commitments

As of June 30, 2011, the District had commitments with respect to unfinished capital projects of approximately \$5.7 million to be paid from a combination of State and local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2011.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. During fiscal year ending June 30, 2011, the District participated in the Southern California ReLiEF public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010-11, the District was self-funded for workers compensation, with excess coverage provided by the Midwest Consulting Company.

Employee Medical Benefits

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

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District's workers' compensation from July 1, 2010 to June 30, 2011:

	Workers' Compensation
Liability Balance, June 30, 2010	\$ 3,047,217
Claims and changes in estimates	1,364,439
Claims payments	(1,424,713)
Liability Balance, June 30, 2011	<u>\$ 2,986,943</u>
Assets available to pay claims at June 30, 2011	<u>\$ 8,025,249</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 5,422,073	100%
2009-10	\$ 5,343,350	100%
2008-09	\$ 5,325,343	100%

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2010-11	\$ 12,314,551	100%
2009-10	\$ 12,818,113	100%
2008-09	\$ 13,746,716	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$6.4 million to STRS (4.267% of salaries subject to STRS in 2010-11).

Alternative Retirement Program (APPLE)

Plan Description

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

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$185,928 during 2010-11. The total amount of covered compensation was \$2,479,040. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2011***NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)****C. Funded Status and Funding Progress – OPEB Plans**

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

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

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

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

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	April 1, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 years
Asset Valuation	Not aware of any "plan assets" on the valuation date
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rate	4.0%
Inflation	3.0%

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2011***NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)****D. Annual OPEB Cost and Net OPEB Obligation**

The following table shows the elements of the District's annual OPEB cost for the year, the amount actually paid on behalf of the plan and changes in the District's net OPEB liability to the plan for the year ended June 30, 2011:

	<u>Amount</u>
Annual required contribution (ARC)	\$ 8,759,628
Interest on net OPEB obligation	914,696
Adjustment to ARC	<u>(810,294)</u>
Annual OPEB cost	<u>8,864,030</u>
Contributions made:	
Contributions from governmental funds	
to Retiree Benefits Fund	(4,215,886)
Pay-as-you-go costs	<u>(404,526)</u>
Total contributions made	<u>(4,620,412)</u>
Increase in net OPEB liability	4,243,618
Net OPEB liability - July 1, 2010	<u>18,293,920</u>
Net OPEB liability - June 30, 2011	<u>\$ 22,537,538</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 and the preceding two years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Liability</u>
2009	\$ 8,969,190	40%	\$ 13,745,030
2010	\$ 9,446,880	52%	\$ 18,293,920
2011	\$ 8,864,030	52%	\$ 22,537,538

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT

The beginning net assets on the Statement of Activities have been restated by \$837,358 for special education transportation.

Required Supplementary Information

FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 206,560,942	\$ 194,829,452	\$ 207,108,527	\$ 12,279,075
Federal	50,706,945	25,907,740	38,445,297	12,537,557
Other State	68,743,351	64,708,218	69,008,614	4,300,396
Other Local	3,400,761	2,245,363	3,397,999	1,152,636
Total Revenues	329,411,999	287,690,773	317,960,437	30,269,664
Expenditures				
Certificated Salaries	150,479,212	142,227,445	147,633,960	(5,406,515)
Classified Salaries	43,470,350	44,223,607	43,768,432	455,175
Employee Benefits	76,892,128	71,747,802	73,071,049	(1,323,247)
Books and Supplies	24,517,201	12,579,854	7,778,232	4,801,622
Services and Other Operating Expenditures	40,762,392	30,863,413	26,897,508	3,965,905
Capital Outlay	1,652,207	785,436	310,763	474,673
Direct Support/Indirect Costs	(1,289,732)	(1,205,779)	(1,078,124)	(127,655)
Other Outgo	23,712	-	52,904	(52,904)
Total Expenditures	336,507,470	301,221,778	298,434,724	2,787,054
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,095,471)	(13,531,005)	19,525,713	33,056,718
Other Financing Sources and Uses				
Interfund Transfers In	-	-	-	-
Interfund Transfers Out	(2,170,091)	(2,620,091)	(2,102,407)	517,684
Total Other Financing Sources and Uses	(2,170,091)	(2,620,091)	(2,102,407)	517,684
Net Changes in Fund Balance	(9,265,562)	(16,151,096)	17,423,306	33,574,402
Fund Balances, July 1, 2010	36,071,326	35,358,563	36,908,683	1,550,120
Fund Balances, June 30, 2011	\$ 26,805,764	\$ 19,207,467	\$ 54,331,989	\$ 35,124,522

See accompanying note to required supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Federal	\$ 14,812,905	\$ 14,333,295	\$ 15,954,036	\$ 1,620,741
Other State	1,280,996	1,318,076	1,393,223	75,147
Other Local	3,004,197	2,510,610	2,620,620	110,010
Total Revenues	19,098,098	18,161,981	19,967,879	1,805,898
Expenditures				
Classified Salaries	5,687,907	5,249,643	5,295,789	(46,146)
Employee Benefits	3,027,596	2,800,759	2,825,053	(24,294)
Books and Supplies	8,890,568	6,423,684	8,262,970	(1,839,286)
Services and Other Operating Expenditures	230,120	218,133	235,470	(17,337)
Capital Outlay	450,000	100,236	73,685	26,551
Other Outgo	811,907	656,742	691,952	(35,210)
Total Expenditures	19,098,098	15,449,197	17,384,919	(1,935,722)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	2,712,784	2,582,960	(129,824)
Net Changes in Fund Balance	-	2,712,784	2,582,960	(129,824)
Fund Balances, July 1, 2010	6,702,602	7,028,744	7,028,744	-
Fund Balances, June 30, 2011	\$ 6,702,602	\$ 9,741,528	\$ 9,611,704	\$ (129,824)

See accompanying note to required supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2011

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

See accompanying note to required supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

Schedule of Funding Progress

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

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2011, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code:

<u>Appropriations Category</u>	<u>General Fund</u>	<u>Cafeteria Fund</u>
Certificated Salaries	\$ 5,406,515	\$ 46,146
Employee Benefits	1,323,247	24,294
Books and Supplies	-	1,839,286
Services and Other Operating Expenditures	-	17,337
Direct Support/Indirect Costs	127,655	-
Other Outgo	52,904	35,210

Supplementary Information

FONTANA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2011

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

GOVERNING BOARD

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

DISTRICT ADMINISTRATORS

Cali L. Olsen-Binks,
Superintendent

Alejandro Alvarez,
Associate Superintendent, Business Services

Oscar Dueñas,
Associate Superintendent, Instructional Services

William Wu,
Assistant Superintendent, Human Resources

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2011

	Second Period Report (Certificate No. 4E61DD28)	Annual Report (Certificate No. A01D31E3)
Elementary:		
Kindergarten	2,778	2,784
Grades 1 through 3	8,904	8,895
Grades 4 through 6	8,487	8,487
Grades 7 and 8	5,658	5,647
Home and hospital	8	10
Community day school	-	1
Special education	978	986
Extended year program	11	11
	<hr/>	<hr/>
Total Elementary	26,824	26,821
	<hr/>	<hr/>
Secondary:		
Grades 9 through 12, regular classes	11,100	11,026
Continuation education	715	682
Home and hospital	22	23
Community day school	18	17
Special education	578	571
Extended year program	11	12
	<hr/>	<hr/>
Total Secondary	12,444	12,331
	<hr/>	<hr/>
Total Average Daily Attendance	<u>39,268</u>	<u>39,152</u>

See accompanying note to supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2011

Grade Level	1982-83 Minutes		1986-87 Minutes		2010-2011 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	36,000	35,000	36,000	35,000	35,000	175	Complied
Grade 1	46,130	44,849	50,400	49,000	51,569	175	Complied
Grade 2	46,130	44,849	50,400	49,000	51,569	175	Complied
Grade 3	46,130	44,849	50,400	49,000	51,569	175	Complied
Grade 4	47,800	46,472	54,000	52,500	52,899	175	Complied
Grade 5	47,800	46,472	54,000	52,500	52,899	175	Complied
Grade 6	47,800	46,472	54,000	52,500	52,899	175	Complied
Grade 7	57,390	55,796	54,000	52,500	56,859	175	Complied
Grade 8	57,390	55,796	54,000	52,500	56,859	175	Complied
Grade 9	57,390	55,796	64,800	63,000	63,461	175	Complied
Grade 10	57,390	55,796	64,800	63,000	63,461	175	Complied
Grade 11	57,390	55,796	64,800	63,000	63,461	175	Complied
Grade 12	57,390	55,796	64,800	63,000	63,461	175	Complied

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

See accompanying note to supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2011

General Fund	(Budget) 2012 ³	2011	2010	2009
Revenues and other financing sources	\$ 301,422,977	\$ 317,960,437	\$ 295,010,817	\$ 347,058,349
Expenditures	295,173,189	298,434,724	312,705,242	328,609,901
Other uses and transfers out	-	2,102,407	1,192,165	1,362,177
Total outgo	295,173,189	300,537,131	313,897,407	329,972,078
Change in fund balance (deficit)	6,249,788	17,423,306	(18,886,590)	17,086,271
Ending fund balance	\$ 60,581,777	\$ 54,331,989	\$ 36,071,325	\$ 54,957,915
Available reserves ¹	\$ 15,098,668	\$ 9,007,559	\$ 23,245,810	\$ 36,313,517
Available reserves as a percentage of total outgo	5.1%	3.0%	7.4%	11.0%
Total long-term debt	\$ 395,907,283	\$ 405,384,547	\$ 410,565,614	\$ 312,839,079
Average daily attendance at P-2 ²	39,017	39,268	38,982	39,030

The General Fund balance has decreased by (\$625,926) over the past two years. The fiscal year 2011-12 adopted budget projects an increase of \$6,249,788. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one the past three years, and does not anticipate incurring an operating deficit during the 2011-12 fiscal year. Long-term debt has increased by \$92,545,469 over the past two years.

Average daily attendance has increased by 238 over the past two years. A decrease of 251 ADA is anticipated during fiscal year 2011-12.

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

² Excludes Adult Education ADA.

³ Revised Final Budget September, 2011.

See accompanying note to supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Program - Basic	10.553	13525	\$ 2,506,454
School Breakfast Program - Especially Needy	10.553	13526	446,161
National School Lunch Program	10.555	13523	11,992,124
USDA-Donated Foods	10.555	N/A	1,009,297
Total U.S. Department of Agriculture			15,954,036
U.S. Department of Education:			
Smaller Learning Communities, Consolidated	84.315	N/A	364,566
Passed through California Dept. of Education (CDE):			
ARRA: State Fiscal Stabilization Fund	84.394	25008	1,835,972
Education Jobs	84.410	25152	6,776,799
Adult Basic Education (ABE):			
English as a Second Language	84.002	14508	276,785
Adult Secondary Language	84.002	13978	84,997
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	13797	7,210,586
ARRA Title I, Part A, - Basic Grant	84.389	15005	5,318,306
Title I, School Improvement Grant (SIG)	84.377	15127	148,108
ARRA Title I, School Improvement Grant (SIG)	84.388	15020	1,111,893
Title I - Part D, Subpart 2, Local Delinquent Programs	84.010	14357	38,369
ARRA Title I, Part D, Subpart 2, Local Delinquent Programs	84.389	15009	10,641
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	28,105
ARRA, Title X McKinney-Vento Homeless Assistance	84.387	15007	13,469
Title IV, Part A, Safe & Drug Free Schools and Communities, Formula Grants	84.186	14347	5,308
Title I - Part B, Even Start Family Literacy	84.213	13001	107,713
Title IV - Part B, 21 st Century Community Learning Centers Program	84.287	14349	211,092
Title II - Part D Enhancing Education Through Technology	84.318	14335	117,992
Titla II, Part D, Education Technology Competitive	84.318	14368	143,257
ARRA Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	193,044
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants (EETT)	84.386	15126	38,204
Title I - Part B, Reading First	84.357	14328	919,757
Title III - Limited English Proficiency	84.365	10084	992,932
Title III - Immigrant Education Proficient	84.365	14346	76,201
Title II - Part A Improving Teacher Quality	84.367A	14341	1,925,682
Carl Perkins Act, Secondary	84.048	13924	301,727
Advanced Placement Test Fee	84.330	14504	40,168
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement, Part B	84.027	13379	6,538,739
ARRA Local Assistance Entitlement, Part B	84.391	15003	2,182,842
IDEA Preschool Local Entitlement, Part B	84.027A	13682	243,714
ARRA IDEA Part B, Preschool Local Entitlement	84.391	15002	291,135
IDEA Preschool Grants, Part B	84.173	13430	163,197
ARRA IDEA Part B, Preschool Grants	84.392	15000	247,612
Preschool Staff Development	84.173A	13431	1,967
Private Preschool	84.027	10115	1,184
ARRA Private School ISP	84.391	10123	1,184
Early Intervention Grants	84.027	23761	129,885
Workability II, Transition	84.158	10006	135,840
Total U.S. Department of Education			38,228,972
U.S. Department of Health & Human Services:			
Passed through California Dept of Education:			
CCDF Center Child Care	93.596	13609	117,259
Quality Improvement Activities	93.575	13942	567
Head Start	93.600	10016	118,138
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	313,671
Total U.S. Department of Health & Human Services			549,635
Total Expenditures of Federal Awards			\$ 54,732,643

See accompanying note to supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

See accompanying note to supplementary information.

FONTANA UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2011

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Other 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

Board of Education
Fontana Unified School District
Fontana, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of and for the year ended June 30, 2011, which collectively comprise Fontana Unified School District's basic financial statements and have issued our report thereon dated December 7, 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

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

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

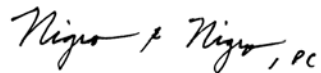
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Fontana Unified School District in a separate letter dated December 7, 2011.

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

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

December 7, 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**

Board of Education
Fontana Unified School District
Fontana, California

Compliance

We have audited the compliance of Fontana Unified School District with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Fontana Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fontana Unified School District's management. Our responsibility is to express an opinion on Fontana Unified School District's compliance based on our audit.

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

In our opinion, Fontana Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

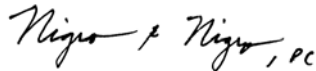
Internal Control Over Compliance

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

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

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

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



December 7, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Fontana Unified School District
Fontana, California

We have audited Fontana Unified School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11, published by the Education Audit Appeals Panel, for the year ended June 30, 2011. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Fontana Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Fontana Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

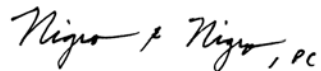
Table with 3 columns: Description, Procedures in Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements,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

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

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

In our opinion, Fontana Unified School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, and which are described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2.

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



December 7, 2011

Findings and Questioned Costs

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.394</u>	<u>State Fiscal Stabilization Fund</u>
<u>84.410</u>	<u>Education Jobs</u>
<u>84.010, 84.389</u>	<u>Title I, Part A, Low Income Cluster</u>
<u>84.027, 84.391,</u>	
<u>84.392, 84.173</u>	<u>Special Education (IDEA) Cluster</u>
<u>84.367A</u>	<u>Title II, Part A, Improving Teacher Quality</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,641,979</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

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

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2010-11.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

There were no federal award findings or questioned costs in 2010-11.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2011-1: After School Education and Safety Program (40000)

Criteria: Districts are required to provide quarterly reports to the State for which attendance is reported for the After School Base Grant. In addition, the District should maintain written records that document pupil participation by tracing the reported numbers through any documentation used to summarize the numbers of students served to written data origination documentation.

Condition: The District provided the auditors with supporting documentation for the data reported in the quarterly report to the State, but were unable to determine whether pupils attended the program for a minimum of 15 hours and five days a week or a minimum of nine hours and three days a week for elementary and middle schools respectively to accomplish program goals. In addition, the providers are not following the District's early release policy with regard to granting pupil attendance.

Context: The District contracts with outside providers to assist in operating the after school program in accordance with state laws and regulations. The providers submit the attendance records to the District to consolidate, prepare and submit the semi-annual report of attendance to the state. Of the three providers, 40 pupils were selected to verify their attendance: 17 pupils had an incorrect amount of hours reported, five pupils were unable to be verified as to whether they attended the program for the minimum required time, and one pupil was provided attendance despite attending for less than the time stipulated in the early release policy.

Questioned Cost: The District over-reported 106 days of attendance at a cost of \$795.

Effect: The District has over-reported after school attendance to the state on the semi-annual report of attendance.

Cause: Internal control weaknesses between the providers and the District office, which cause the report of attendance to potentially be misreported.

Recommendation: The District should develop controls to closely monitor the after school program's attendance submitted by the providers for accuracy. This includes reviewing the reviewing the sign-in/out sheets to ensure that the students are meeting the minimum weekly attendance requirement and verifying whether the providers are utilizing the District approved early release policy.

District's Response: The District will monitor the after school program's attendance submitted by providers for accuracy by selecting two random pupils from each school site and reviewing their attendance quarterly. The District will establish a new method for tracking the number of hours accurately and provide training for staff on the new method. Lastly, the District will review and train staff on the early release policy to ensure that our providers follow the District's early release policy.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2011-2: Attendance Rosters (10000)

Criteria: School districts must record and maintain attendance rosters for all pupils and attendance must not be credited for more than the scheduled class time.

Condition: The site attendance audit at South Tamarind Elementary School identified an instance where the substitute teacher rosters were not retained. The school site utilizes an electronic attendance accounting system, but substitute teachers are required to record attendance manually.

Context: The school site verbally identified the practice, so we performed additional tests to determine the extent of the problem. Expanded testing of two substitute teachers identified no further instances.

Questioned Costs: We found no misstated ADA as a result of the exception.

Cause: The school site utilizes an electronic attendance accounting system, and substitute teachers are not authorized to access the attendance system. Therefore, the office manager records the attendance for the substitute teachers for that day of attendance.

Effect: The District provided attendance detail including sign-in/out sheets to indicate the overall ADA is not misstated.

Recommendation: The District should ensure that the school site retain attendance documents at the school site or District Office and be available for audit at all times.

District Response: Attendance training was offered to South Tamarind's office staff and Principal. The office staff was provided with an attendance handbook that provides step-by-step instructions for handling attendance accounting at the school site. Fiscal personnel has reviewed site files on several occasions to ensure that site staff does not deviate from the procedures associated with attendance accounting legal requirements.

The Technology and the Fiscal Department met to discuss new procedures or precautionary measures to take in order to avoid future audit exceptions and to assist site personnel with substitute rosters:

- The electronic student attendance information system used by Certificated contracted employees, to report student attendance, is now available to substitute teachers. Substitute teachers are now authorized to access the attendance system and can therefore, readily access the student attendance screen each morning to expedite attendance.

FONTANA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2010-1: Continuation Attendance</i>	<p>School districts must use hourly attendance accounting in continuation education programs, and attendance must not be credited for more than the scheduled class time.</p> <p>The attendance system credits pupils with 23.20 hours of ADA for each week of attendance for those pupils attending the full week. Based upon the bell schedule provided, each pupil should be credited with 24.58 hours of ADA for each week.</p>	10000	The system should be corrected so that each week of attendance generates apportionment hours that correspond to the scheduled class times.	Implemented.



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

Our audit of the financial statements of Fontana Unified School District (the organization) as of and for the year ended June 30, 2011 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the company's internal control.

As our consideration on internal control was for the limited purpose of expressing our opinion on the financial statement described in this letter, we would not necessarily identify all deficiencies in internal control that might be *significant deficiencies* or *material weaknesses* as those terms are defined by professional standards. Also, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by these controls.

As defined by professional standards, a deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned responsibilities, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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.

During the course of performing our procedures, 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 7, 2011, on the financial statements of Fontana Unified School District.

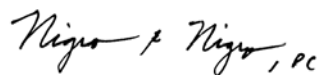
To the Board of Education of
Fontana Unified School District

ASB ACCOUNTING

Our testing of associated student body (ASB) accounting noted some internal control weaknesses, as described below:

- At three school sites, our testing indicated that a budget was not adopted by the student council. An annual budget should be prepared and approved by the student council. The student council should vote on the budget and include it in the meeting minutes.
- At two school sites, our testing identified one expense that exceeded the student council's original approval by more than 10% without approval for the overage and two expenses that were questionable in nature. We recommend that expenses in excess of 10% be re-approved by the general ASB to ensure that no unauthorized expenditures are made and the expenses are only for the general welfare of the students.
- At one school site, our testing over cash disbursements revealed an instance where the student council reimbursed a different individual than originally approved. All ASB expenses should be properly approved and ensure the items are for the general welfare of the student group.
- At one school site, we determined that the ASB has an open club account for the Class of 2010 and two clubs that carry negative club balances. The funds in the Class of 2010 club account should be transferred to the general ASB and then closed. Club balances should not only be monitored by the club and respective advisor, but also the bookkeeper. The Governing Board allows ASBs to operate in schools to provide an opportunity for students to learn how an organization's finances operate. Clubs with negative balances are not being managed effectively, which increases the risk for fraud to occur.
- At seven school sites, our testing of bank deposits revealed that bank deposits were not made in a timely manner. We recommend that deposits be made on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts occur during these times.
- At two school sites, we noted instances where the deposit was not supported by adequate documentation. The site collected money for various fundraisers, but noted no tally logs or other means of reconciling the deposit. Without supporting documentation, we could not verify whether all cash collected had been deposited intact. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fund-raiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fund-raiser sales.

This communication is intended solely for the information and use of the Board of Education and management of Fontana Unified School District and is not intended to be and should not be used by anyone other than these specified parties.



December 7, 2011