

ADELANTO SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2012



ADELANTO SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2012
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adelanto School District
Adelanto, California

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

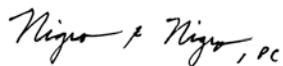
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards and Procedures for Audits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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District as of June 30, 2012 and the respective changes in financial position, 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 14, 2012 on our consideration of Adelanto School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and budgetary comparison information and schedule of funding progress on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



December 14, 2012

ADELANTO SCHOOL DISTRICT

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

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

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved from last year, as the net assets increased by 25.9% to \$194.4 million
- Total governmental revenues were \$104.3 million, \$40.0 million more than expenses.
- The total cost of basic programs was \$64.3 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$8.4 million.
- Average daily attendance (ADA) in grades K-8 increased by 218, or 2.8%.

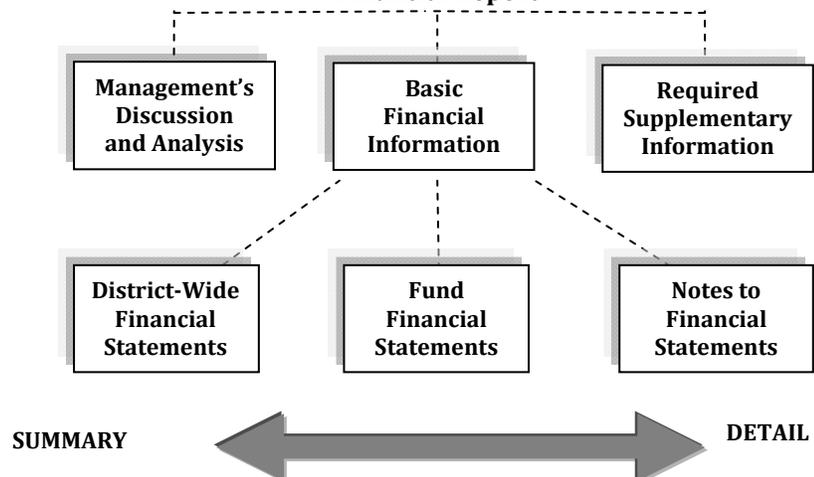
OVERVIEW OF THE FINANCIAL STATEMENTS

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 Adelanto 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.



ADELANTO SCHOOL DISTRICT

*Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2012*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	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	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
<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
<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
<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

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

ADELANTO SCHOOL DISTRICT

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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 it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

ADELANTO SCHOOL DISTRICT

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were higher on June 30, 2012, than they were the year before – increasing 25.9% to \$194.4 million. (See Table A-1.)

Table A-1: Net Assets

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011*	
Current and other assets	\$ 79.4	\$ 62.7	\$ 16.7
Capital assets	161.6	137.4	24.2
Total assets	241.0	200.1	40.9
Current liabilities	7.0	6.4	0.6
Long-term debt liabilities	39.6	39.3	0.3
Total liabilities	46.6	45.7	0.9
Net assets			
Invested in capital assets, net of related debt	141.4	116.0	25.4
Restricted	61.4	46.5	14.9
Unrestricted	(8.4)	(8.1)	(0.3)
Total net assets	\$ 194.4	\$ 154.4	\$ 40.0

* As restated

Changes in net assets, governmental activities. The District's total revenues increased 8.3% to \$104.3 million (See Table A-2). The increase is due primarily to \$41.5 million in state facility grants received from OPSC.

The total cost of all programs and services decreased 3.5% to \$64.3 million. The District's expenses are predominantly related to educating and caring for students, 72.7%. The purely administrative activities of the District accounted for just 6.9% of total costs. A significant contributor to the decrease in costs was the District's budget cuts necessitated by state funding cuts.

Table A-2: Changes in Net Assets

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011	
Total Revenues	\$ 104.3	\$ 96.3	\$ 8.0
Total Expenses	64.3	66.7	(2.4)
Increase (decrease) in net assets	\$ 40.0	\$ 29.6	\$ 10.4

ADELANTO SCHOOL DISTRICT

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

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 \$72.7 million, which is above last year's ending restated fund balance of \$56.3 million. The overall increase in the fund balances resulted from a net increase of about \$13.7 million in the County School Facilities Fund.

General Fund Budgetary Highlights

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

- Revenues – increased by \$3.4 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$1.3 million due to increased classified salaries and increased benefits costs.
- Other non-capital expenses – increased \$1.8 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 \$2.0 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.4 million. Actual revenues were \$0.5 million less than anticipated, but expenditures were \$5.0 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2012 that will be carried over into the 2012-13 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$28.5 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 \$4.3 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011*	
Land	\$ 17.2	\$ 17.2	\$ -
Improvement of sites	3.7	3.7	-
Buildings	103.9	87.1	16.8
Furniture and equipment	3.5	2.9	0.6
Construction in progress	33.3	26.5	6.8
Total	<u>\$ 161.6</u>	<u>\$ 137.4</u>	<u>\$ 24.2</u>

* As restated

ADELANTO SCHOOL DISTRICT

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$39.6 million in general obligation bonds, certificates of participation, and employment benefits – an increase of 0.9% from last year – as shown in Table A-4. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2012	2011*	
General obligation bonds	\$ 26.7	\$ 27.2	\$ (0.5)
Certificates of participation	9.2	9.2	-
Capital Leases	-	0.1	(0.1)
Early retirement incentives	1.1	0.8	0.3
Compensated absences	0.6	0.6	-
Other postemployment benefits	2.0	1.4	0.6
Total	<u>\$ 39.6</u>	<u>\$ 39.3</u>	<u>\$ 0.3</u>

* As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

K-12 Education

Spending Roughly Flat

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

Mandate Block Grant Adopted

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

ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2012*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education (continued)

Final Shift of Student Mental Health Service Funding

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

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

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

Governor Vetoes Funding for Certain K-12 Programs

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to:

Laura Carevic, Assistant Superintendent, Business Services
Adelanto School District
11824 Air Expressway
Adelanto, CA 92301
(760) 246-8691

ADELANTO SCHOOL DISTRICT*Statement of Net Assets**June 30, 2012*

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 58,595,784
Investments	1,101,724
Accounts receivable	19,211,434
Inventories	351,617
Prepaid expenses	104,053
Total current assets	<u>79,364,612</u>
Capital Assets:	
Non-depreciable assets	50,502,105
Depreciable assets	150,124,076
Less accumulated depreciation	<u>(39,036,197)</u>
Total capital assets, net of depreciation	<u>161,589,984</u>
Total assets	<u>240,954,596</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	<u>6,943,049</u>
Total current liabilities	<u>6,943,049</u>
Long-term liabilities:	
Portion due or payable within one year:	2,803,546
Portion due or payable after one year:	<u>36,804,774</u>
Total long-term liabilities	<u>39,608,320</u>
Total liabilities	<u>46,551,369</u>
 NET ASSETS	
Invested in capital assets, net of related debt	141,375,584
Restricted for:	
Capital projects	52,639,506
Debt service	3,317,055
Categorical programs	5,489,935
Unrestricted	<u>(8,418,853)</u>
Total net assets	<u>\$ 194,403,227</u>

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Governmental Activities</u>					
Instructional services:					
Instruction	\$ 32,223,572	\$ 2,116	\$ 6,153,420	\$ 41,521,614	\$ 15,453,578
Instruction-related services:					
Supervision of instruction	929,058	-	373,509	-	(555,549)
Instructional library, media and technology	268,161	-	8,537	-	(259,624)
School site administration	4,079,762	-	131,513	-	(3,948,249)
Pupil support services:					
Home-to-school transportation	2,652,893	-	1,358,730	-	(1,294,163)
Food services	4,725,553	-	5,103,285	-	377,732
All other pupil services	1,876,826	118,916	318,289	-	(1,439,621)
General administration services:					
Data processing services	525,492	-	1,489	-	(524,003)
Other general administration	3,903,503	5,883	539,758	-	(3,357,862)
Plant services	6,688,213	432	92,029	-	(6,595,752)
Community services	40,618	-	26,638	-	(13,980)
Interest on long-term debt	2,094,998	-	-	-	(2,094,998)
Other outgo	14,878	138,473	26,082	-	149,677
Depreciation (unallocated)	4,309,113	-	-	-	(4,309,113)
Total Governmental Activities	\$ 64,332,640	\$ 265,820	\$ 14,133,279	\$ 41,521,614	(8,411,927)

General Revenues:

Property taxes	5,597,880
Federal and state aid not restricted to specific purpose	42,288,051
Interest and investment earnings	20,508
Interagency revenues	49,939
Miscellaneous	506,917
Total general revenues	48,463,295
Change in net assets	40,051,368
Net assets, July 1, 2011, as originally stated	141,550,492
Adjustment for restatement	12,801,367
Net assets, July 1, 2011, as restated	154,351,859
Net assets, June 30, 2012	\$ 194,403,227

ADELANTO SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2012

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 6,902,562	\$ 46,253,717	\$ 5,439,505	\$ 58,595,784
Investments	-	-	1,101,724	1,101,724
Accounts receivable	18,126,377	82,721	1,002,336	19,211,434
Due from other funds	384,553	7,022,771	20,651	7,427,975
Inventories	126,096	-	225,521	351,617
Prepaid expenditures	104,053	-	-	104,053
Total Assets	\$ 25,643,641	\$ 53,359,209	\$ 7,789,737	\$ 86,792,587
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,757,810	\$ 2,864,207	\$ 17,219	\$ 6,639,236
Due to other funds	7,043,422	-	384,553	7,427,975
Total Liabilities	10,801,232	2,864,207	401,772	\$ 14,067,211
Fund Balances				
Nonspendable	290,149	-	226,466	516,615
Restricted	4,143,735	50,495,002	7,161,499	61,800,236
Committed	1,594,028	-	-	1,594,028
Assigned	794,316	-	-	794,316
Unassigned	8,020,181	-	-	8,020,181
Total Fund Balances	14,842,409	50,495,002	7,387,965	72,725,376
Total Liabilities and Fund Balances	\$ 25,643,641	\$ 53,359,209	\$ 7,789,737	\$ 86,792,587

ADELANTO SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 72,725,376

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$200,626,181, and the accumulated depreciation is (\$39,036,197).

161,589,984

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

(303,813)

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

General obligation bonds payable	26,702,312	
Certificates of participation payable	9,170,612	
Compensated absences payable	599,294	
Early retirement incentive	1,107,230	
Other postemployment benefits	2,028,872	(39,608,320)
	<u>2,028,872</u>	<u>(39,608,320)</u>

Total net assets - governmental activities

\$ 194,403,227

ADELANTO SCHOOL DISTRICT*Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the Fiscal Year Ended June 30, 2012*

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 40,152,698	\$ -	\$ -	\$ 40,152,698
Federal sources	5,566,439	-	4,805,525	10,371,964
Other state sources	6,937,690	41,225,519	499,717	48,662,926
Other local sources	2,245,118	296,095	2,669,396	5,210,609
Total Revenues	54,901,945	41,521,614	7,974,638	104,398,197
EXPENDITURES				
Instructional Services:				
Instruction	31,957,411	-	-	31,957,411
Instruction-Related Services:				
Supervision of instruction	924,320	-	-	924,320
Instructional library, media and technology	246,774	-	-	246,774
School site administration	3,987,124	-	-	3,987,124
Pupil Support Services:				
Home-to-school transportation	3,441,377	-	-	3,441,377
Food services	39,004	-	4,883,995	4,922,999
All other pupil services	1,867,339	-	-	1,867,339
Community services	40,618	-	-	40,618
General Administration Services:				
Data processing services	525,492	-	-	525,492
Other general administration	3,050,869	-	211,495	3,262,364
Plant services	5,942,063	-	837	5,942,900
Facility acquisition and construction	153,416	27,794,073	165,301	28,112,790
Other outgo:				
Transfers between agencies	10,675	-	-	10,675
Debt service - issuance costs	4,203	-	-	4,203
Debt service - principal	93,460	-	1,053,329	1,146,789
Debt service - interest	586	-	1,541,310	1,541,896
Total Expenditures	52,284,731	27,794,073	7,856,267	87,935,071
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,617,214	13,727,541	118,371	16,463,126
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	471,380	471,380
Interfund transfers out	-	-	(471,380)	(471,380)
Total Other Financing Sources and Uses	-	-	-	-
Net Change in Fund Balances	2,617,214	13,727,541	118,371	16,463,126
Fund Balances, July 1, 2011, as originally stated	12,225,195	36,767,461	10,550,318	59,542,974
Adjustments for Restatement	-	-	(3,280,724)	(3,280,724)
Fund Balances, July 1, 2011, as restated	12,225,195	36,767,461	7,269,594	56,262,250
Fund Balances, June 30, 2012	\$ 14,842,409	\$ 50,495,002	\$ 7,387,965	\$ 72,725,376

ADELANTO SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds \$ 16,463,126

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is 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	28,496,845	
Depreciation expense	<u>(4,309,113)</u>	24,187,732

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,146,789

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was: (539,438)

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

Amortization of premium or discount for the period is: (10,588)

In governmental funds, postemployment benefits costs are recognized as expenditures in the period that they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (599,852)

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, and structured legal settlements. This year, early retirement incentives granted exceeded the amounts paid by: (251,208)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due.

In the government-wide statement of activities, it is recognized in the period that it is incurred.

Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (303,813)

In the statement of activities, compensated absences are measured by the amounts *earned*

during the year. In the governmental funds, however, expenditures for these items are measured

by the amount of financial resources used (essentially, the amounts actually *paid*.) (41,380)

Change in net assets of governmental activities \$ 40,051,368

ADELANTO SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Fund
June 30, 2012

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	\$ 29,815	\$ -
Investments	-	3,119,290
Total Assets	\$ 29,815	\$ 3,119,290
Liabilities		
Due to bondholders	\$ -	\$ 3,119,290
Due to student groups	29,815	-
Total Liabilities	\$ 29,815	\$ 3,119,290

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 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.

The following is a summary of the Community Facilities Districts (CFDs) operated by the District:

<u>Date of Formation</u>	<u>Name</u>	<u>Area</u>
April 19, 2005	CFD No. 1	West Creek
September 6, 2005	CFD No. 2	New West
August 2, 2006	CFD No. 3	Griffin Communities
December 4, 2006	CFD No. 4	American Heritage

Special tax bonds issued by the CFDs are described in more detail in Note 7D.

Financial Presentation

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

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 Adelanto 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 Adelanto 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 activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statement 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.

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 for depreciation to functions in the statement of activities.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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 meet 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 in 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.

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.

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. 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 essentially 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 and 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 the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions (continued)

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. However, under the modified accrual basis of accounting, debt services 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.

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

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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Special Revenue Funds (continued): 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.

Major Governmental Funds

The District maintains the following major governmental funds:

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

County School Facilities Fund: This fund is used primarily to account separately for state apportionments as provided by Ed. Code sections 17009.5 & 17070.10-17076.10.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

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

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.

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 Funds:

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.

Debt Service Fund for Blended Component Units: This fund is used to account for the debt service activity of the certificates of participation.

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:

ASB 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.

Debt Service Fund for Special Tax Bonds: This fund is used to account for the debt service activity of the Community Facilities Districts (CFDs).

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 and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the General Fund is presented in the required supplementary information section.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting (continued)

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.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

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.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. Fund Balance Classifications (continued)

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. The passage of a resolution must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

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, the Board of Trustees delegates authority to assign fund balance amounts for a specific purpose to the Chief Business Official in the District.

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

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 reporting period. Actual results could differ from those estimates.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements

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

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

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

NOTE 2 - CASH AND INVESTMENTS

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

	<u>Governmental Activities/Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in county treasury	\$ 57,757,588	\$ -
Total Pooled Funds	<u>57,757,588</u>	<u>-</u>
Deposits:		
Cash on hand and in banks	777,251	29,815
Cash in revolving fund	60,945	-
Total Deposits	<u>838,196</u>	<u>29,815</u>
Total Cash	<u>\$ 58,595,784</u>	<u>\$ 29,815</u>
Investments:		
Zion Bank:		
Fidelity Institutional Gov. Money Market	<u>\$ 1,101,724</u>	<u>\$ 3,119,920</u>

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

Pooled Funds

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

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

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

Custodial Credit Risk – Deposits

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

As of June 30, 2012, \$592,613 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2012 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
Zion Bank:			
Fidelity Institutional Gov. Money Market	\$ 4,221,644	\$ 4,221,644	\$ -

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

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, 2012, 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, 2012, the District had the following investments that represents more than five percent of the District's net investments.

Fidelity Institutional Gov. Money Market	100%
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NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:				
Categorical aid programs	\$ 1,076,198	\$ -	\$ 918,255	\$ 1,994,453
State Government:				
Revenue limit	15,138,908	-	-	15,138,908
Lottery	604,893	-	-	604,893
Categorical aid programs	111,912	-	79,601	191,513
Class size reduction	475,193	-	-	475,193
Other state resources	216,589	-	-	216,589
Local:				
Interest	9,956	82,721	2,734	95,411
Miscellaneous	492,728	-	1,746	494,474
Total	<u>\$ 18,126,377</u>	<u>\$ 82,721</u>	<u>\$ 1,002,336</u>	<u>\$ 19,211,434</u>

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 4 - INTERFUND ACTIVITIES

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

	Due From Other Funds			Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 7,022,771	\$ 20,651	\$ 7,043,422
Non-Major Governmental Funds	384,553	-	-	384,553
Total	<u>\$ 384,553</u>	<u>\$ 7,022,771</u>	<u>\$ 20,651</u>	<u>\$ 7,427,975</u>
Cafeteria Fund due to General Fund for salary reimbursement				\$ 383,454
Capital Facilities Fund due to General Fund to reclass funds to the proper fund				1,099
General Fund due to Cafeteria Fund for reversal of expenditures				20,651
General Fund due to County School Facilities Fund for temporary loans				<u>7,022,771</u>
Total				<u>\$ 7,427,975</u>

B. Interfund Transfers

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

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

Capital Facilities Fund transfer to Debt Service Fund for Blended Component Units for contribution amount	<u>\$ 471,380</u>
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ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy

Pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund. 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 Trustees.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 8% of the District's general fund annual operating expenditures. If a fund balance drops below 8%, a plan will be developed to replenish the fund balance to the established minimum level within two years.

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

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

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 60,000	\$ -	\$ 945	\$ 60,945
Stores inventories	126,096	-	225,521	351,617
Prepaid expenditures	104,053	-	-	104,053
Total Nonspendable	290,149	-	226,466	516,615
Restricted:				
Categorical programs	4,143,735	-	-	4,143,735
Child nutrition program	-	-	1,346,200	1,346,200
Capital projects	-	50,495,002	2,498,244	52,993,246
Debt service	-	-	3,317,055	3,317,055
Total Restricted	4,143,735	50,495,002	7,161,499	61,800,236
Committed:				
Stabilization arrangements	1,594,028	-	-	1,594,028
Total Committed	1,594,028	-	-	1,594,028
Assigned:				
Deferred maintenance program	794,316	-	-	794,316
Total Assigned	794,316	-	-	794,316
Unassigned:				
Reserve for economic uncertainties	1,704,037	-	-	1,704,037
Remaining unassigned balances	6,316,144	-	-	6,316,144
Total Unassigned	8,020,181	-	-	8,020,181
Total	\$ 14,842,409	\$ 50,495,002	\$ 7,387,965	\$ 72,725,376

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Original Balance, July 1, 2011	Adjustments for Restatements	Restated Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012
Capital assets not being depreciated:						
Land	\$ 17,229,842	\$ (2,100)	\$ 17,227,742	\$ -	\$ -	\$ 17,227,742
Construction in progress	45,130,650	(18,636,408)	26,494,242	26,010,571	19,230,450	33,274,363
Total capital assets not being depreciated	62,360,492	(18,638,508)	43,721,984	26,010,571	19,230,450	50,502,105
Capital assets being depreciated:						
Improvement of sites	3,718,702	3,215,220	6,933,922	295,800	-	7,229,722
Buildings	105,191,483	7,168,993	112,360,476	20,112,235	-	132,472,711
Equipment	8,343,490	769,464	9,112,954	1,308,689	-	10,421,643
Total capital assets being depreciated	117,253,675	11,153,677	128,407,352	21,716,724	-	150,124,076
Accumulated depreciation for:						
Improvement of sites	(2,702,150)	(543,656)	(3,245,806)	(326,604)	-	(3,572,410)
Buildings	(28,366,063)	3,123,722	(25,242,341)	(3,353,189)	-	(28,595,530)
Equipment	(7,255,793)	1,016,856	(6,238,937)	(629,320)	-	(6,868,257)
Total accumulated depreciation	(38,324,006)	3,596,922	(34,727,084)	(4,309,113)	-	(39,036,197)
Total capital assets being depreciated, net	78,929,669	14,750,599	93,680,268	17,407,611	-	111,087,879
Governmental activity capital assets, net	\$ 141,290,161	\$ (3,887,909)	\$ 137,402,252	\$ 43,418,182	\$ 19,230,450	\$ 161,589,984

NOTE 7 – GENERAL LONG-TERM DEBT

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

	Balance, July 1, 2011*	Additions	Deductions	Balance, June 30, 2012	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 12,385,857	\$ -	\$ 988,329	\$ 11,397,528	\$ 813,875
Accreted interest component	14,765,346	1,660,373	1,120,935	15,304,784	1,513,969
Total - G.O. Bonds	27,151,203	1,660,373	2,109,264	26,702,312	2,327,844
Certificates of Participation:					
Principal repayments	9,495,000	-	65,000	9,430,000	105,000
Unamortized issuance discount	(269,976)	-	(10,588)	(259,388)	(10,587)
Total - COPs	9,225,024	-	54,412	9,170,612	94,413
Capital Leases	93,460	-	93,460	-	-
Compensated Absences	557,914	41,380	-	599,294	-
Early Retirement Incentives	856,022	598,515	347,307	1,107,230	381,289
Other Postemployment Benefits	1,429,020	599,852	-	2,028,872	-
Totals	\$ 39,312,643	\$ 2,900,120	\$ 2,604,443	\$ 39,608,320	\$ 2,803,546

*Special assessment debt of \$19,970,000 has been removed in accordance with GASB No. 6.

A. General Obligation Bonds

In 1993, the District received authorization to issue \$10 million of general obligation bonds at an election held on June 8, 1993. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of two new elementary schools.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

In 1996, the District received authorization to issue \$12 million of general obligation bonds at an election held on June 4, 1996. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of a new elementary school and a new middle school.

Below is a summary of bonds issued by the District.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance July 1, 2011	Additions	Deductions	Balance, June 30, 2012
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 1,850,315	\$ -	\$ 187,957	\$ 1,662,358
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	3,031,461	-	321,074	2,710,387
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	1,528,721	-	355,000	1,173,721
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,975,360	-	124,298	5,851,062
				<u>\$ 21,995,645</u>	<u>\$ 12,385,857</u>	<u>\$ -</u>	<u>\$ 988,329</u>	<u>\$ 11,397,528</u>
				<u>Accreted Interest</u>				
				1993	\$ 2,505,920	\$ 238,009	\$ 307,043	\$ 2,436,886
				1994	4,067,385	544,567	678,190	3,933,762
				1996	1,520,902	161,188	-	1,682,090
				1997	6,671,139	716,609	135,702	7,252,046
					<u>\$ 14,765,346</u>	<u>\$ 1,660,373</u>	<u>\$ 1,120,935</u>	<u>\$ 15,304,784</u>

The amounts required to amortize general obligation bonds payable at June 30, 2012 were:

Fiscal Year	Principal	Interest	Total
2012-13	\$ 813,875	\$ 1,513,969	\$ 2,327,844
2013-14	830,000	1,718,853	2,548,853
2014-15	851,224	1,939,735	2,790,959
2015-16	875,269	2,191,879	3,067,148
2016-17	902,132	2,473,495	3,375,627
2017-22	5,756,630	16,163,911	21,920,541
2022-23	1,368,398	4,161,602	5,530,000
Total	<u>\$ 11,397,528</u>	<u>\$ 30,163,444</u>	<u>\$ 41,560,972</u>

B. Certificates of Participation

On January 17, 2007 the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the Public Property Financing Corporation of California. The proceeds of the certificates were used primarily to finance the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. The certificates were issued as \$1,870,000 Serial Certificates with stated interest rates of between 3.875% and 4.25% and maturing between September 1, 2011 and 2021 and Term Certificates of \$1,705,000, and \$5,920,000, having yields of 4.48% and 4.53%, and maturing September 1, 2026, and 2036, respectively. At June 30, 2012 the principal balance outstanding was \$9,430,000.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2012

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual amounts required to amortize the outstanding certificates are shown below.

Fiscal Year	Principal	Interest	Total
2012-13	\$ 105,000	\$ 402,984	\$ 507,984
2013-14	120,000	398,484	518,484
2014-15	135,000	393,384	528,384
2015-16	150,000	387,778	537,778
2016-17	170,000	381,578	551,578
2017-22	1,125,000	1,786,128	2,911,128
2022-27	1,705,000	1,489,468	3,194,468
2027-32	2,465,000	1,040,484	3,505,484
2032-37	<u>3,455,000</u>	<u>397,141</u>	<u>3,852,141</u>
Total	<u>\$ 9,430,000</u>	<u>\$ 6,677,429</u>	<u>\$ 16,107,429</u>

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2012 for these obligations are shown below.

Future Years	SERP
2012-13	\$ 381,289
2013-14	272,660
2014-15	213,875
2015-16	119,703
2016-17	<u>119,703</u>
Total	<u>\$ 1,107,230</u>

D. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$19,625,000 as of June 30, 2012, does not represent debt of the District and, as such, does not appear in the financial statements.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 8 – JOINT VENTURES

The Adelanto School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). 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, health and welfare benefits coverage, and workers compensation insurance 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, 2012 is as follows:

	SCSRM June 30, 2011 (Audited)	SCSEBA June 30, 2011 (Audited)
Total Assets	\$ 55,870,381	\$ 29,657,220
Total Liabilities	13,325,215	10,571,660
Total Net Assets	<u>\$ 42,545,166</u>	<u>\$ 19,085,560</u>
Revenues	\$ 28,640,046	\$ 128,895,538
Expenses	28,883,392	129,492,499
Change in Net Assets	<u>\$ (243,346)</u>	<u>\$ (596,961)</u>

NOTE 9 – RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

For fiscal year 2011-12, the District participated in the SCSR JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with High Desert and Inland Employee/Employer Trust to provide employee medical, vision, and life insurance benefits. The District provides dental benefits for management employees through SCSEBA.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 10 - 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

At June 30, 2012, the District had commitments with respect to unfinished capital projects of \$26.4 million to be paid from a combination of State and local funds.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

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

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 951,908	100%
2010-11	\$ 959,469	100%
2009-10	\$ 976,414	100%

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

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

	Contribution	Percent of Required Contribution
2011-12	\$ 1,944,978	100%
2010-11	\$ 1,947,896	100%
2009-10	\$ 2,155,618	100%

Alternative Retirement Program (ARP)

Plan Description

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers part-time, 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 Trustees.

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 \$31,183 during 2011-12. The total amount of covered compensation was \$831,886. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

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 \$1.0 million to STRS (4.267% of salaries subject to STRS in 2011-12).

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits	37
Active plan members*	511
Total	548

**As of November 1, 2011 actuarial valuation*

Following is a description of the current retiree benefit plan: (Some retirees may have retired under earlier, grandfathered plans.)

	Certificated	Classified	Management
Benefit types provided	Medical and vision	Medical only	Medical only
Duration of benefits	To age 65	To age 65	To age 65
Required service	10 years	10 years	10 years
Minimum age	55	55	50
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	95% of the lowest supercomposite rate	100% of the lowest supercomposite rate	100% of the lowest supercomposite rate

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. The District established the self insurance fund to set aside funds of this liability. For fiscal year 2011-12, the District contributed \$280,280.

Annual OPEB Cost and Net OPEB Obligation

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

Annual required contribution (ARC)	\$ 871,976
Interest on net OPEB obligation	71,451
Adjustment to ARC	<u>(63,295)</u>
Annual OPEB cost	880,132
Contributions made:	<u>(280,280)</u>
Increase in net OPEB asset	599,852
Net OPEB obligation - July 1, 2011	<u>1,429,020</u>
Net OPEB obligation - June 30, 2012	<u><u>\$ 2,028,872</u></u>

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

Year Ended	Annual	Percentage	Net
June 30,	OPEB Cost	Contributed	OPEB
			Obligation
2010	\$ 626,059	42.7%	\$ 837,262
2011	876,754	33%	1,429,020
2012	880,132	31.8%	2,028,872

Funded Status and Funding Progress – OPEB Plans

As of November 1, 2011, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$4.1 million and the unfunded actuarial accrued liability (UAAL) was \$4.1 million.

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

Actuarial Methods and Assumptions

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

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Additional information as of the latest actuarial valuation follows:

Valuation Date	November 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	5%
Inflation	3%
Healthcare cost trend rate	4%

NOTE 13 – ADJUSTMENTS FOR RESTATEMENTS

The beginning net assets on the Statement of Activities have been restated by \$12,801,367. The restatements are necessary to remove the balance of special assessment debt outstanding at June 30, 2011 that was previously included in long-term liabilities, less the balance of the funds that were held in trust to pay the debt, and to adjust the beginning balance of capital assets at June 30, 2011. As explained in Note 7D., the special assessment debt is no longer considered debt of the District and has been removed from the financial statements.

The beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance has been restated by \$3,280,724 to remove balances in the Non-Major Governmental Funds associated with the special assessment debt.

NOTE 14 – EFFECT OF STATE OF CALIFORNIA BUDGET CRISIS

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

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

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Required Supplementary Information

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

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 39,696,359	\$ 40,247,282	\$ 40,152,698	\$ (94,584)
Federal Sources	4,605,251	5,938,301	5,566,439	(371,862)
Other State Sources	6,065,441	6,711,704	6,642,824	(68,880)
Other Local Sources	1,309,002	2,187,308	2,241,555	54,247
Total Revenues	51,676,053	55,084,595	54,603,516	(481,079)
Expenditures				
Certificated Salaries	25,354,669	24,588,398	23,823,035	765,363
Classified Salaries	8,414,278	9,125,218	8,423,752	701,466
Employee Benefits	9,899,314	11,232,672	10,304,301	928,371
Books and Supplies	2,120,116	3,246,045	2,429,990	816,055
Services and Other Operating Expenditures	6,809,060	7,711,164	6,330,693	1,380,471
Capital Outlay	850,000	1,341,824	969,812	372,012
Other Outgo	94,493	(111,265)	(106,774)	(4,491)
Total Expenditures	53,541,930	57,134,056	52,174,809	4,959,247
Net Change in Fund Balances	(1,865,877)	(2,049,461)	2,428,707	4,478,168
Fund Balances, July 1, 2011	9,640,523	11,617,453	11,617,453	-
Fund Balances, June 30, 2012	\$ 7,774,646	\$ 9,567,992	\$ 14,046,160	\$ 4,478,168

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

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

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/1/2009	N/A	\$ 4,025,752	\$ 4,025,752	0.0%	\$ 33,685,400	12%
11/1/2011	N/A	\$ 4,072,850	4,072,850	0.0%	34,143,198	12%

ADELANTO SCHOOL DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2012*

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>General Fund</u>		
Other Outgo	\$	4,491

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Supplementary Information

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ADELANTO SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2012

The Adelanto School District is an elementary school district established in 1873 and is comprised of an area of approximately 330 square miles located in San Bernardino County, encompassing a portion of the City of Adelanto and surrounding areas. There were no changes in the boundaries of the District during the current year. During the fiscal year, the District operated seven elementary schools (K-6), three K-8 schools, and two middle schools (7-8).

GOVERNING BOARD

Member	Office	Term Expires
Christine Turner	President	November, 2014
Elaine Gonzales	Clerk	November, 2012
Debra Jones	Member	November, 2012
Teresa Rogers	Member	November, 2012
Jermaine Wright ¹	Member	November, 2014

DISTRICT ADMINISTRATORS

Darin Brawley, ²
Superintendent

Michael McClatchey, ³
Interim Assistant Superintendent, Business Services

Ross Swearingen, ⁴
Assistant Superintendent, Human Resources

¹ Resigned December 7, 2012. Current seat is vacant.

² Resigned September 7, 2012. The current Interim Superintendent is Richard Bray.

³ As of November 26, 2012, Laura Carevic became the Assistant Superintendent of Business Services.

⁴ Resigned June 30, 2012. The Interim Director of Human Resources is Edward Dardenne-Ankringa.

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

	Second Period Report (Certificate No. <u>09CDBA2F</u>)	Annual Report (Certificate No. <u>15366CDF</u>)
Elementary:		
Kindergarten	878	886
Grades 1 through 3	2,565	2,564
Grades 4 through 6	2,560	2,552
Grades 7 and 8	1,687	1,678
Home and hospital	13	15
Opportunity school	17	18
Special education	<u>289</u>	<u>289</u>
 Total Average Daily Attendance	 <u><u>8,009</u></u>	 <u><u>8,002</u></u>

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

Grade Level	1982-83 Minutes		1986-87 Minutes		2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	31,500	29,400	36,000	33,600	46,405	175	Complied
Grade 1	46,375	43,283	50,400	47,040	49,030	175	Complied
Grade 2	46,375	43,283	50,400	47,040	49,030	175	Complied
Grade 3	46,375	43,283	50,400	47,040	49,030	175	Complied
Grade 4	52,500	49,000	54,000	50,400	52,180	175	Complied
Grade 5	52,500	49,000	54,000	50,400	52,180	175	Complied
Grade 6	52,500	49,000	54,000	50,400	52,180	175	Complied
Grade 7	52,500	49,000	54,000	50,400	52,180	175	Complied
Grade 8	52,500	49,000	54,000	50,400	52,180	175	Complied

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

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

General Fund	(Budget) 2013 ²	2012 ³	2011	2010
Revenues and other financing sources	\$ 48,698,137	\$ 54,603,516	\$ 52,473,387	\$ 51,536,243
Expenditures	54,906,994	52,174,809	50,856,395	54,968,466
Change in fund balance (deficit)	(6,208,857)	2,428,707	1,616,992	(3,432,223)
Ending fund balance	<u>\$ 7,837,303</u>	<u>\$ 14,046,160</u>	<u>\$ 11,617,453</u>	<u>\$ 10,000,461</u>
Available reserves ¹	<u>\$ 2,931,472</u>	<u>\$ 8,020,181</u>	<u>\$ 8,268,952</u>	<u>\$ 1,649,492</u>
Available reserves as a percentage of total outgo	<u>5.3%</u>	<u>15.4%</u>	<u>16.3%</u>	<u>3.0%</u>
Total long-term debt	<u>\$ 38,506,203</u>	<u>\$ 39,608,320</u>	<u>\$ 39,312,643</u>	<u>\$ 39,287,399</u>
Average daily attendance at P-2	<u>8,007</u>	<u>8,009</u>	<u>7,791</u>	<u>7,863</u>

The General Fund balance has increased by \$4,045,699 over the past two years. The fiscal year 2012-13 adopted budget projects a decrease of \$6,208,857. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, and anticipates incurring an operating deficit during the 2012-13 fiscal year. Long-term debt has increased by \$320,921 over the past two years.

Average daily attendance has increased by 146 over the past two years. A decrease of 2 ADA is anticipated during fiscal year 2012-13.

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

² Revised Final Budget September 2012.

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

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Cafeteria Fresh Fruit & Vegetable	10.582	14968		\$ 228,360
Child Nutrition Cluster				
Especially Needy Breakfast	10.553	13390	\$ 1,343,095	
National School Lunch Program	10.555	13391	2,972,550	
USDA Donated Foods	10.555	N/A	<u>261,520</u>	
Subtotal Child Nutrition Cluster				<u>4,577,165</u>
Total U.S. Department of Agriculture				<u>4,805,525</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind Act (NCLB):				
Title I, Part A, Basic Grants	84.010	14329		1,570,021
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		194,316
Education Technology State Grants Cluster				
Title II, Part D, Enhancing Education Through Technology	84.318	14334	13,369	
ARRA Title II, Part D, Enhancing Education Through Technology Formula Grants	84.386	15019	<u>18,261</u>	
Subtotal Education Technology State Grants Cluster				31,630
English Language Acquisition Grants Cluster				
Title III, Limited English Proficiency	84.365	14346	1,492	
Title III, Immigrant Education Program	84.365	15146	<u>271,730</u>	
Subtotal English Language Acquisition Grants Cluster				273,222
Education Jobs Fund	84.410	25152		1,128,069
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
IDEA Basic Local Assistance Entitlement, Part B	84.027	13379	1,603,339	
ARRA-IDEA Part B, Basic Local Assistance	84.391	15003	<u>483,146</u>	
Subtotal Special Education Cluster				<u>2,086,485</u>
Total U.S. Department of Education				<u>5,283,743</u>
U.S. Department of Health & Human Services:				
Passed through California Department of Education:				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	48,588	
Medi-Cal Administrative Activies (MAA)	93.778	10060	<u>44,388</u>	
Subtotal Medicaid Cluster				<u>92,976</u>
Total U.S. Department of Health & Human Services				<u>92,976</u>
Total Expenditures of Federal Awards				<u>\$ 10,182,244</u>

ADELANTO SCHOOL DISTRICT

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

	<u>Debt Service Fund for Blended Component Units</u>
June 30, 2012, annual financial and budget report (SACS) fund balances	\$ 3,917,940
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
CFD activity reported within a fiduciary fund	<u>(3,119,323)</u>
Net adjustments and reclassifications	<u>(3,119,323)</u>
June 30, 2012, audited financial statement fund balances	<u>\$ 798,617</u>

ADELANTO SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2012

<u>Name of Charter School</u>	<u>Included in District Audit?</u>
Alta Vista Public Charter	No

ADELANTO SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

Other Independent Auditors' Reports

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

Board of Trustees
Adelanto School District
Adelanto, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District as of and for the year ended June 30, 2012, which collectively comprise Adelanto School District's basic financial statements and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Adelanto School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Adelanto 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 Adelanto School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adelanto 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.

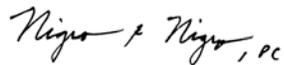
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 Adelanto School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-1.

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

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



December 14, 2012



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

Board of Trustees
Adelanto School District
Adelanto, California

Compliance

We have audited Adelanto School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Adelanto School District's major federal programs for the year ended June 30, 2012. Adelanto 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 Adelanto School District's management. Our responsibility is to express an opinion on Adelanto 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 Adelanto 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 Adelanto School District's compliance with those requirements.

In our opinion, Adelanto School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

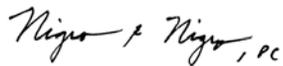
Internal Control Over Compliance

Management of Adelanto 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 Adelanto 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 14, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto School District
Adelanto, California

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Adelanto 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.

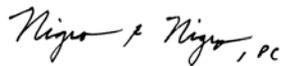
Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with Only One School Serving K-3	4	Not applicable

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

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

In our opinion, Adelanto School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-1.

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 14, 2012

Findings and Questioned Costs

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's 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 auditor's 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>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.027, 84.391</u>	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 305,467</u>
Auditee qualified as low-risk auditee?	<u>No</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 auditor's report issued on compliance for state programs:	<u>Unqualified</u>

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2011-12.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

ADELANTO SCHOOL DISTRICT

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

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2012-1: After School Education and Safety Program (40000)

Criteria: Education Code Section 8482.4 requires Districts receiving funding for the After School Education and Safety program to submit semi-annual attendance reports to the California Department of Education.

Condition: During our testing of the first semi-annual attendance report of the ASES program, the District incorrectly reported the attendance for two sites.

Context: George Visual and Performing Arts Magnet and Middle School reported 6,346 students served when it should have reported 6,099, for a difference of 247. West Creek Elementary School reported 6,494 students served when it should have reported 6,441, for a difference of 53. This results in an over-reported amount of 300 students.

Questioned Cost: \$2,250.00

Effect: The District's semi-annual report is incorrect and must be revised.

Cause: The program is run by the District in accordance with state laws and regulations. The District records attendance for the After School Education and Safety program daily through the Aeries system. There could have been information that was incorrectly input into the system or a problem with the computer program.

Recommendation: The District should revise the semi-annual attendance report immediately.

District Response: The District will revise the semi-annual report as requested by the audit firm. The District will also review its practice of reporting the attendance for the students in the ASES program to ensure accurate reporting in the future.

ADELANTO SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2012

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2011-1: Fixed Assets</i>	<p>Fixed assets represent one of the largest investments of the District. Control and accountability are of significant concern. Sound internal controls and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District.</p> <p>The District did not track and reconcile 2010-11 projects to general ledger expenditures and update the capital asset schedules for the audit. In addition, the District did not update the fixed assets schedule, and additions to capital expenditures could not be reconciled to the general ledger. We were able to determine that the expenditures were for proper capital costs, but not the nature of the project nor whether the asset(s) were depreciable in the current year or construction in progress. As a result, there may be material misstatements in the amounts reported for capital assets and depreciation at June 30, 2011.</p>	20000	<p>The District needs to develop controls to closely monitor the purchase of fixed assets and proper identification of the expense. All construction and modernization costs, including those made from component units need to be reconciled to the general ledger as part of the year-end closing process. These amounts should then be added to the fixed assets system kept by the County. Furthermore, we recommend that the District consider contracting with an outside firm to obtain a full detailed capital asset inventory as a starting point, then utilize an accounting department staff to keep the inventory current.</p>	Implemented