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ORANGE UNIFIED SCHOOL DISTRICT

COUNTY OF ORANGE
ORANGE, CALIFORNIA

AUDIT REPORT

June 30, 2008

ORANGE UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

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A Professional
Accountancy Corporation

Board of Trustees
Orange Unified School District
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Orange Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008 on our consideration of the Orange Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12, the budgetary comparison information on page 52, and the schedules of funding progress and employer contributions on page 53 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Orange Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Rogers Rogers & White, PC

San Diego, California
October 20, 2008

Management's Discussion and Analysis

This discussion and analysis of Orange Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's transmittal letter, notes to the basic financial statements and the basic government wide financial statements to enhance their understanding of the District's financial performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS

- The comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Orange Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column.
- The major funds for Orange Unified School District are the General Fund, the County School Facilities Fund, the Special Reserve for Capital Outlay Fund, and the Capital Project Fund for Blended Component Units.
- The Management Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Revenues increased by $17.9 million to a total of $283.8 million. Total revenues exceeded expenses of $261.8 million by $22.0 million.
- General revenues accounted for $196.5 million or 69% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $87.3 million or 31% of total revenues of $283.8 million.
- Long-term outstanding debt has increased by $109.6 million or 131% due to the issuance of retiree health benefits funding bonds, the PARS supplementary retirement program, and new capital leases.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

- Enrollment in the District decreased by 668. This has caused funding to decrease.
- The General Fund reported a positive fund balance of $29.5 million; this is an increase of $5.0 million or 20%.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Change in Net Assets

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, we separate the District activities as follows:

Governmental activities – All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities and the ongoing effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and retiree health benefits held in trust. The District's fiduciary activities are reported in separate *Statement of Net Assets and Liabilities*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $102.8 million for the fiscal year ended June 30, 2008. Of this amount, unrestricted net assets were $11.0 million. Restricted net assets are reported separately to show legal constraints form debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table A-1) and changes in net assets (Table A-2) of the District's governmental activities.

Table A-1
Orange Unified School District's Net Assets

	(in millions) Governmental Activities		Total Percentage Change
	2007	2008	2007-08
Current and other assets	$125.3	$205.1	64%
Capital assets	84.1	115.2	37%
Total assets	$209.4	$320.3	53%
Other liabilities	$33.3	$24.3	-27%
Long-term liabilities	83.6	193.2	131%
Total liabilities	$116.9	$217.5	86%
Total net assets	$ 92.5	$ 102.8	11%

Changes in Net Assets

The results of this year's operations for the District as a while are reported in the Statement of Activities on page 14. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

Table A-2
Changes in Orange Unified School District's Net Assets

	(in millions) Governmental Activities		Total Percentage Change
	2007	2008	2007-08
Revenues:			
Program revenues			
Charges for services	$ 12.5	$ 12.7	2%
Operating grants and	63.6	65.6	3%
Capital grants and contributions	0.9	9.0	900%
General revenues			
Property taxes	113.1	111.9	-1%
Other revenues	75.9	84.6	11%
Total revenues	265.9	283.8	7%
Expenses:			
Instruction-related	185.2	196.8	6%
Student support services	25.0	26.1	4%
Maintenance & operations	26.2	18.0	-31%
Administration	9.6	12.8	33%
Other expenses	14.9	8.1	-46%
Total expenses	260.9	261.8	0%
Special items	-	(11.6)	n/a
Increase in net assets	$ 5.0	$ 10.4	106%

Governmental Activities

As reported in the Statement of Activities on page 14, the cost of all our governmental activities this year was $261.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $174.5 million because the cost was paid by those who benefited from the programs ($12.7 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($74.6 million). Special items this year consist of transfers of the retiree health benefits funding bond proceeds to the District's Retiree Benefits Fund of $93.7 million and increase in net other postemployment benefits (OPEB) asset of $82.1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, as shown in Table A-3 below, the District had $171.4 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents an increase of just over $19.6 million or 13% from last year.

Table A-3
Orange Unified School District's Capital Assets

	(In millions) Governmental Activities		Total Percentage Change
	2007	2008	2007-08
Land	$19.7	$19.7	0%
Site Improvements	13.1	10.8	-18%
Buildings	82.5	74.7	-9%
Equipment and furniture	14.0	7.5	-47%
Work in progress	22.6	58.7	160%
Total	$151.8	$171.4	13%
This year's additions (including work in progress) included in millions:			
Esplanade Elementary	1.8	4.0	122%
Jordan Elementary	2.8	3.6	29%
Portola Middle School	3.4	3.4	0%
Total	$8.0	$11.0	38%

As of June 30, 2008, the District had invested more than $115 million, net of depreciation, in a broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the fiscal year, the District continued the modernization of 9 schools namely: California Elementary School, Esplanade Elementary School, Fairhaven Elementary School, Jordan Elementary School, Lampson Elementary School, Prospect Elementary School, Sycamore Elementary School, Portola Middle School, and Yorba Middle School. It is anticipated that the modernization projects for Prospect, Jordan, and Esplanade Elementary Schools will be completed in the 2008-09 fiscal year.

At the end of this year, as shown in Table A-4 below, the District has $193.2 million in long-term debt versus $83.6 million last year, which is an increase of 131%. Those long-term liabilities consisted of:

Table A-4
Orange Unified School District's Long-Term Debt
(In millions)

	2007	2008	Total Percentage Change 2007-08
Certificates of participation	$51.4	$50.9	-1%
Compensated absences	2.6	2.3	-12%
Capital leases	6.0	12.7	112%
Special tax revenue bonds	23.5	22.4	-5%
Retiree health benefits bonds	-	94.8	n/a
Supplementary retirement plan	-	10.1	n/a
Child development portables	0.1	-	-100%
Total	$83.6	$193.2	131%

The overall long-term debt increased by $109.6 million to $193.2 million. This is mainly due to the issuance of retiree health benefits funding bonds, the proceeds of which were transferred into the District's Retiree Benefits Fund, as well as new capital leases related to the District's energy projects. A Public Agency Retirement Services (PARS) supplementary retirement program was established in the 2007-08 fiscal year, also increasing the District's long-term debt balance. The $94.8 million in retiree benefits bonds is offset by the net other postemployment benefits (OPEB) asset of $82.1 million as reported on the Statement of Net Assets on page 13, which resulted from the transfer of the retiree benefits bond proceeds into the Retiree Benefits Fund. Compensated absences decreased by $221,229, which agreed with the District's projection and budget allowances. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total budgeted attendance of 26,921 (not including District charter schools) reflects a net increase of 22 ADA in general education, special education, and adult education as compared to 2007/08. The Budget for 2008/09 includes funding for a cost of living adjustment (COLA) of 0.68%

Expenditures are projected to increase in negotiated salary adjustment and step and column increase for all employees.

The District provides Class Size Reduction program Option 1 to Grades 1-2 and Option 2 to Grade K. Average staffing ratios for all grade levels are shown in the table below:

	Staffing Ratio
Grades one through two	19:1
Grade K and Grades three through six	30:1
Grades seven through twelve	32:1

The new items specifically addressed in the budget are:

	% Change
Revenue limit cost-of-living adjustment	0.68%
Revenue limit deficit	4.71%
State and federal cost-of-living adjustment	0.00%
Health and welfare increase	0.00%
Employee salary increase	
Certificated	0.00%
Classified	0.00%
Leadership	0.00%

FACTORS BEARING ON THE DISTRICT'S FUTURE

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes $24.0 billion of "solutions", including $10.3 billion in spending cuts, $9.6 billion in revenue-related provisions, and $4.0 billion in borrowing.

The final budget agreement includes:

- A total of $10.3 billion in spending reductions, including $3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.
- A one-time shift of $350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides $58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by $3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide $150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.
- Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of $550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Orange Unified School District, 1401 North Handy Street, Orange, CA 92867, or via e-mail at jarchibald@orangeusd.k12.ca.us.

Financial Section

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Total Governmental Activities
ASSETS	
Cash	$ 98,493,599
Accounts receivable	23,152,506
Inventories	349,758
Prepaid expenses	1,001,807
Net OPEB asset	82,108,709
Capital assets:	
Land	19,687,697
Improvement of sites	10,781,200
Buildings	74,681,979
Furniture and equipment	7,475,984
Work in progress	58,724,231
Less accumulated depreciation	(56,198,598)
Total capital assets, net of depreciation	115,152,493
Total assets	$ 320,258,872
LIABILITIES	
Accounts payable and current liabilities	$ 23,392,088
Deferred revenues	862,144
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation payable	370,000
Capital leases payable	874,873
Retirement health benefits funding bonds	1,000,000
Supplementary retirement plan	2,021,301
Other general long-term debt	1,230,000
Portion due or payable after one year:	
Certificates of participation payable	50,500,000
Capital leases payable	11,837,602
Compensated absences payable	2,353,418
Retirement health benefits funding bonds	93,765,000
Supplementary retirement plan	8,090,368
Other general long-term debt	21,145,000
Total liabilities	217,441,794
NET ASSETS	
Invested in capital assets, net of related debt	54,093,985
Restricted for:	
Capital projects	23,537,851
Debt service	7,102,998
Educational programs	7,077,600
Unrestricted	11,004,644
Total Net Assets	$ 102,817,078

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Instructional Services:					
Instruction	$ 161,634,889	$ 6,149,821	$ 36,378,409	$ 9,030,415	$ (110,076,244)
Instruction-Related Services:					
Supervision of instruction	10,836,885	180,930	6,996,438	-	(3,659,517)
Instructional library, media and technology	5,848,584	150,263	2,020,344	-	(3,677,977)
School site administration	18,449,099	1,667,253	585,749	-	(16,196,097)
Pupil Support Services:					
Home-to-school transportation	7,301,056	249,365	2,597,922	-	(4,453,769)
Food services	8,125,819	3,130,239	4,981,879	-	(13,701)
All other pupil services	10,721,180	623,783	2,423,320	-	(7,674,077)
General Administration Services:					
Data processing services	1,511,355	-	1,064,151	-	(447,204)
Other general administration	11,261,766	281,295	1,833,546	-	(9,146,925)
Plant services	18,028,065	214,785	5,529,741	-	(12,283,539)
Ancillary services	1,755,964	-	84,821	-	(1,671,143)
Community services	126,180	-	-	-	(126,180)
Interest on long-term debt	4,521,598	-	-	-	(4,521,598)
Other outgo	1,714,877	43,162	1,140,654	-	(531,061)
Total Governmental Activities	$ 261,837,317	$ 12,690,896	$ 65,636,974	$ 9,030,415	$ (174,479,032)

General Revenues:	
Taxes:	
Property taxes, levied for general purposes	$ 111,840,476
Property taxes, levied for special purposes	8,821
Federal and state aid not restricted to specific purpose	65,230,975
Interest and investment earnings	4,619,588
Miscellaneous	14,782,689
Special items:	
Retirement health benefits funding bond proceeds transferred to Retiree Benefits Fund	(93,763,635)
Increase in net OPEB asset	82,108,709
Total general revenues and special items	184,827,623
Change in net assets	10,348,591
Net assets - July 1, 2007	92,468,487
Net assets - June 30, 2008	$ 102,817,078

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

ORANGE UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2008

	General Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	$ 28,043,700	$ 7,752,525	$ 9,780,600	$ 26,923,812	$ 15,962,330	$ 88,462,967
Accounts receivable	18,277,672	20,744	3,827,974	-	1,002,872	23,129,262
Due from other funds	339,574	1,305,333	4,445,109	-	1,793,896	7,883,912
Inventories	200,893	-	-	-	148,865	349,758
Prepaid expenditures	442	-	-	-	-	442
Total Assets	$ 46,862,281	$ 9,078,602	$ 18,053,683	$ 26,923,812	$ 18,907,963	$ 119,826,341
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued liabilities	$ 13,260,835	$ 96,606	$ 2,365,402	$ 2,024,845	$ 1,745,591	$ 19,493,279
Due to other funds	3,257,752	4,386,312	1,305,642	-	354,713	9,304,419
Deferred revenue	826,438	-	-	-	35,706.00	862,144
Total Liabilities	17,345,025	4,482,918	3,671,044	2,024,845	2,136,010	29,659,842
Fund Balances						
Reserved for:						
Inventories	200,893	-	-	-	148,865	349,758
Revolving cash	125,000	-	-	-	10,000	135,000
Debt service	-	-	-	-	7,102,998	7,102,998
Prepaid expenditures	442	-	-	-	-	442
Categorical programs	7,077,600	-	-	-	-	7,077,600
Other purposes (expendable)	3,939,170	-	-	-	-	3,939,170
Unreserved; reported in:						
General fund	18,174,151	-	-	-	-	18,174,151
Capital project funds	-	4,595,685	14,382,639	24,898,967	4,559,527	48,436,818
Other funds	-	-	-	-	4,950,563	4,950,563
Total Fund Balances	29,517,256	4,595,684	14,382,639	24,898,967	16,771,953	90,166,499
Total Liabilities and Fund Balances	$ 46,862,281	$ 9,078,602	$ 18,053,683	$ 26,923,812	$ 18,907,963	$ 119,826,341

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

ORANGE UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2008

Total fund balances - governmental funds		$ 90,166,499
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 $171,351,091 and the accumulated depreciation is ($56,198,598).		115,152,493
In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The net OPEB asset at the end of the period was:		82,108,709
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:		(1,120,380)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:		1,001,365
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:		
Certificates of participation payable	50,870,000	
Other general long-term debt	22,375,000	
Compensated absences payable	2,353,418	
Retirement health benefits funding bonds	94,765,000	
Supplementary retirement plan	10,111,669	
Capital leases payable	12,712,475	(193,187,562)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:		8,695,954
Total net assets - governmental activities		$ 102,817,078

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2008

	General Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
General Revenues:						
Property taxes	$ 111,849,295	$ -	$ -	$ 2,402,884	$ -	$ 114,252,179
Federal and state aid not restricted to specific purpose	65,230,975	-	-	-	-	65,230,975
Earnings on investments	1,657,483	74,624	530,546	1,877,716	479,219	4,619,588
Miscellaneous	1,533,267	-	270,549	-	4,891,809	6,695,625
Program Revenues:						
Charges for services	5,233,018	-	-	-	7,457,878	12,690,896
Operating grants and contributions	58,116,022	-	-	-	7,520,952	65,636,974
Capital grants and contributions	-	9,030,415	-	-	-	9,030,415
Total Revenues	243,620,060	9,105,039	801,095	4,280,600	20,349,858	278,156,652
EXPENDITURES						
Instructional Services:						
Instruction	146,737,308	-	-	-	4,420,660	151,157,968
Instruction-Related Services:						
Supervision of instruction	10,782,961	-	-	-	28,036	10,810,997
Instructional library, media and technology	5,828,325	-	-	-	6,172	5,834,497
School site administration	17,461,216	-	-	-	943,697	18,404,913
Pupil Support Services:						
Home-to-school transportation	7,492,890	-	-	-	-	7,492,890
Food services	222,001	-	-	-	7,949,724	8,171,725
All other pupil services	10,694,138	-	-	-	974	10,695,112
General Administration Services:						
Data processing services	1,515,058	-	-	-	-	1,515,058
Other general administration	7,739,159	-	-	57,858	333,489	8,130,506
Plant services	22,406,310	-	-	-	1,639,019	24,045,329
Facility acquisition and construction	3,782,743	8,352,383	2,528,529	13,619,373	1,675,038	29,958,066
Ancillary services	1,751,856	-	-	-	-	1,751,856
Community services	125,878	-	-	-	-	125,878
Other outgo:						
Transfers between agencies	1,714,877	-	-	-	-	1,714,877
Debt service - issuance costs	1,001,365	-	-	-	-	1,001,365
Debt service - principal	630,162	-	14,733	1,165,000	545,426	2,355,321
Debt service - interest	948,973	-	368	1,161,856	2,320,505	4,431,702
Total Expenditures	240,835,220	8,352,383	2,543,630	16,004,087	19,862,740	287,598,060
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,784,840	752,656	(1,742,535)	(11,723,487)	487,118	(9,441,408)
OTHER FINANCING SOURCES (USES)						
Proceeds from long term debt	97,005,111	-	10,504,591	-	190,837	107,700,539
Interfund transfers in	317,106	5,960,829	3,367,288	-	1,304,180	10,949,403
Interfund transfers out	(95,130,787)	(3,749,356)	(5,832,895)	-	-	(104,713,038)
Total Other Financing Sources and Uses	2,191,430	2,211,473	8,038,984	-	1,495,017	13,936,904
Net Change in Fund Balances	4,976,270	2,964,129	6,296,449	(11,723,487)	1,982,135	4,495,496
Fund Balances, July 1, 2007	24,540,986	1,631,555	8,086,190	36,622,454	14,789,818	85,671,003
Fund Balances, June 30, 2008	$ 29,517,256	$ 4,595,684	$ 14,382,639	$ 24,898,967	$ 16,771,953	$ 90,166,499

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

ORANGE UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds		$ 4,495,496
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	36,366,144	
Depreciation expense	(2,181,807)	34,184,337
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		2,331,134
In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The increase in the net OPEB asset at the end of the period was:		82,108,709
Debt proceeds: In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:		(111,126,664)
Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:		(3,156,677)
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:		(83,663)
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*.)		221,229
The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.		1,374,691
Change in net assets of governmental activities		$ 10,348,591

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2008

		Governmental Activities: Internal Service Fund
ASSETS		
Cash	$	10,030,633
Due from other funds		67,919
Other receivables		23,243
Total Assets	$	10,121,795
LIABILITIES		
Accounts payable and accrued liabilities	$	1,425,213
Due to other funds		628
Total liabilities		1,425,841
NET ASSETS		
Unrestricted		8,695,954
Total net assets	$	8,695,954

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

ORANGE UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds

For the Year Ended June 30, 2008

	Governmental Activities: Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 2,724,301
Total operating revenues	2,724,301
OPERATING EXPENSES	
Classified salaries	145,981
Employee benefits	42,478
Books and supplies	1,583
Services and other operating expenditures	1,539,933
Total operating expenses	1,729,975
Operating Income	994,326
NON-OPERATING REVENUES	
Interest income	380,365
CHANGE IN NET ASSETS	1,374,691
NET ASSETS, JULY 1, 2007	7,321,263
NET ASSETS, JUNE 30, 2008	$ 8,695,954

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2008

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	$ 2,725,540
Cash payments for payroll, insurance and operating costs	(1,681,821)
Net cash provided by operating activities	1,043,719
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	393,058
Net cash provided by investing activities	393,058
Net increase in cash	1,436,777
Cash, July 1, 2007	8,593,856
Cash, June 30, 2008	$ 10,030,633
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 994,326
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in internal activity	1,239
Increase in accounts payable and current liabilities	48,154
Net cash provided by operating activities	$ 1,043,719

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2008

	Trust Fund	Agency Funds	
	Retiree Benefits Fund	Student Body Funds	Total
Assets			
Cash	$ 97,864,695	$ 1,908,273	$ 99,772,968
Accounts receivable - interest	17,444	-	17,444
Due from other funds	1,353,216	-	1,353,216
Total Assets	$ 99,235,355	$ 1,908,273	$ 101,143,628
Liabilities			
Accounts payable	$ 614	$ -	$ 614
Due to student groups	-	1,908,273	1,908,273
Total Liabilities	614	$ 1,908,273	1,908,887
Net Assets	$ 99,234,741		$ 99,234,741

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

ORANGE UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Trust Funds
For the Year Ended June 30, 2008

	Trust Fund Retiree Benefits Fund
ADDITIONS	
Interest	$ 518,771
In-district contributions	1,876,518
Transfer in of proceeds from retirement health benefits funding bonds	93,763,635
Total Additions	96,158,924
DEDUCTIONS	
Operating expenditures	7,181,290
Decrease in fair value of investments	3,293,321
Total Deductions	10,474,610
Net Decrease	85,684,314
Net assets held in trust - July 1, 2007	13,550,427
Net assets held in trust - June 30, 2008	$ 99,234,741

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all fund, 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. 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. The District has no such component units.

The following are those aspects of the relationship between the District and the component units that satisfy GASB Statement No.14 criteria.

Accountability:

1. The District's Board of Trustees appointed the component units' board of directors.
2. The District is able to impose its will upon the component units, based on the following:
    a. All major financing arrangements, contracts, and other transactions of the component units must have the consent of the District.
    b. The District exercises significant influence over operations of the component units, as the District is the sole lessee of all facilities owned by the component units. Likewise, the District's lease payments are the major revenue source of the component units.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Accountability (continued):

3. The component units provide specific financial benefits or impose specific financial burdens on the District, based on the following:
   a. Any deficits incurred by the component units will be reflected in the lease payments of the District.
   b. Any surpluses of the component units revert to the District at the end of the lease period.
   c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the component units.

Scope of Public Service:

The component units is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The corporation was formed for the sole purpose of providing financial assistance to the District for the financing of construction and acquisition of major capital facilities and modernization of existing school sites. The District will lease certain school facilities from the corporations under a lease-purchase agreement.

Financial Presentation:

For financial presentation purposes, the component units' financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the component units' financial activity within the Capital Projects Fund. Certificates of Participation and Bonded Debt issued by the component units will be included in the long-term liabilities on the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

C. Basis of Presentation

Government-wide Financial Statements:

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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 statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to 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. 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 report 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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. 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 have also been recorded as deferred revenue.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, 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, revenues, and expenditures. 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. The District's accounts are organized into major, non-major, proprietary and fiduciary funds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resource except those required to be accounted for in another fund.

The *County School Facilities Fund* is used to receive apportionments from the 1998 State School Facilities Fund, the 2002 State School Facilities Fund, or the 2005 State School Facilities Fund for new school facility construction.

The *Special Reserve Fund for Capital Outlay Projects Fund* provides for the accumulation of general fund moneys for capital outlay purposes.

The *Capital Project Fund for Blended Component Units* is used for blended component units. It is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities considered blended component units of the LEA.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Child Development Fund is used to account for resources committed to child development programs mandated by the district.
3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:

1. The Debt Service Fund is used for the accumulation of resources and the repayment of principal and interest on long-term debt.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains one non-major capital project fund:

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

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Internal Service Fund, which is more fully discussed in Note 10.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The amounts reported for student body funds represent the combined totals of all schools within the District.

Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. The District maintains one other postemployment benefit plan trust fund, the Retiree Benefits Trust Fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the financial statements.

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 and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

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 governmental activities column of 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 $50,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

4. Deferred Revenue

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

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 Reserves and Designations
Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

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. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Taxes on the secured

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

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.

K. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48-*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceed received as lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50-*Pension Disclosures-an Amendment of GASB Statements No. 25 and No. 27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds
Cash in county treasury	$ 54,694,317	$ 9,930,633	$ 5,388,643
Cash on hand and in banks	105,791	100,000	1,908,273
Cash with fiscal agent	33,151,422	-	92,476,052
Cash in revolving fund	135,000	-	-
Collections awaiting deposit	376,437	-	-
Total deposits	$ 88,462,967	$ 10,030,633	$ 99,772,968

Policies and Practices

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately $69,978,515, and an amortized book value of $70,013,593. The average weighted maturity for this pool is 209 days.

Credit Risk
Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is rated by Moody's Investors Service.

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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, 2008, the District's bank balance of $2,114,064 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agency.

Concentration of Credit Risk
The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Self Insurance Fund	Totals	Retiree Benefits Trust Fund
Federal Government:								
Categorical aid programs	$ 3,160,004	$ -	$ -	$ -	$ 739,931	$ -	$ 3,899,935	$ -
State Government:								
Revenue limit	6,199,774	-	-	-	-	-	6,199,774	-
Lottery	1,831,231	-	-	-	-	-	1,831,231	-
Categorical aid programs	3,084,704	-	-	-	220,582	-	3,305,286	-
Local:								
Interest	87,298	20,744	22,070	-	38,595	23,243	191,950	17,444
Miscellaneous	3,914,661	-	3,805,904	-	3,764	-	7,724,329	-
Total	$ 18,277,672	$ 20,744	$ 3,827,974	$ -	$ 1,002,872	$ 23,243	$ 23,152,505	$ 17,444

NOTE 4 - INTERFUND TRANSACTIONS

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

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due To Other Funds					
	General Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Self Insurance Fund	Total
General Fund	$ -	$ 1,203	$ 126	$ 337,757	$ 488	$ 339,574
Special Reserve for Capital Outlay Fund	60,000	4,385,109	-	-	-	4,445,109
County School Facilities Fund	-	-	1,305,333	-	-	1,305,333
Self Insurance Fund	58,062	-	108	9,749	-	67,919
Retiree Benefits Fund	1,345,794	-	75	7,207	140	1,353,216
Other Governmental Funds	1,793,896	-	-	-	-	1,793,896
Total	$ 3,257,752	$ 4,386,312	$ 1,305,642	$ 354,713	$ 628	$ 9,305,047

Due from the Adult Education fund to the General fund for indirect costs	$ 1,067
Due from the Child Development fund to the General fund for indirect cost, transportation, printing, postage, and employee benefits	158,899
Due from the Child Development fund to the Self Insurance fund for workers compensation	4,554
Due from the Child Development fund to the Retiree benefits fund for retirement benefits	3,265
Due from the Cafeteria fund to the General Fund for indirect cost, maintenance, printing, postage, and employee benefits	175,405
Due from the Cafeteria fund to the Self Insurance fund for workers compensation	4,477
Due from the Cafeteria fund to the Retiree benefits fund for retirement benefits	3,438
Due from the Capital Facilities fund to the General fund for printing, postage, maintenance expenditures and employee benefits	2,385
Due from the Capital Facilities fund to the Self Insurance fund for workers compensation	718
Due from the Capital Facilities fund to the Retiree benefits fund for retirement benefits	504
Due from the County School Facilities fund to the General fund for El Rancho modernization project	1,203
Due from the County School Facilities fund to the Special Reserve fund for Capital Outlay for District energy projects	4,385,109
Due from the Special Reserve for Capital Outlay fund to the General fund for printing, postage, and employee benefits	126
Due from the Special Reserve for Capital Outlay fund to the County School Facilities fund for the Santiago energy project	1,305,333
Due from the Special Reserve for Capital Outlay fund to the Self Insurance fund for workers compensation	108
Due from the Special Reserve for Capital Outlay fund to the Retiree benefits fund for retirement benefits	75
Due from the Self Insurance fund to the General fund for employee benefits	488
Due from the Self Insurance fund to the Retiree benefits fund for retirement benefits	140
Due from the General fund to the Child Development fund for employee benefits	13,957
Due from the General fund to the Cafeteria fund for catering	284
Due from the General fund to the Deferred Maintenance for deferred maintenance related expenses	1,179,218
Due from the General fund to the Capital Facilities fund employee benefits	2,320
Due from the General fund to the Special Reserve for Capital Outlay fund for VPES project	60,000
Due from the General fund to the Debt Service fund for community redevelopment	598,118
Due from the General fund to the Self Insurance fund for bank interest and workers compensation	58,062
Due from the General fund to Retiree fund for retiree cost	1,345,794
Total	$ 9,305,047

NOTE 4 - INTERFUND TRANSACTIONS (continued)

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 2007-08 fiscal year are as follows:

	Transfers to Other Funds			
	General Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total
General Fund	$ -	$ 317,106	$ -	$ 317,106
County School Facilities Fund	127,934	-	5,832,895	5,960,829
Special Reserve for Capital Outlay Fund	60,000	3,307,288	-	3,367,288
Retiree Benefits Fund	93,763,635	-	-	93,763,635
Other Governmental Funds	1,179,218	124,962	-	1,304,180
Total	$ 95,130,787	$ 3,749,356	$ 5,832,895	$ 104,713,038

General fund transfer to Special Reserve for Capital Outlay fund for Villa Park project	$ 60,000
General fund transfer to County School Facilities for El Rancho Project	127,934
General fund transfer to Deferred Maintenance fund for DMP and OPSC	1,179,218
General fund transfer to Retiree Benefits fund for deposit of retirement bond proceeds	93,763,635
County School Facilities fund transfer to Deferred Maintenance fund for El Rancho project	124,962
County School Facilities fund transfer to General fund for El Rancho project	317,106
County School Facilities fund transfer to Special Reserve fund for modernization projects	3,307,288
Special Reserve for Capital Outlay fund transfer to County School Facilities fund for modernization projects	5,832,895
Total	$ 104,713,038

NOTE 5 – FUND BALANCES

The following amounts were designated by the Board of Education as of June 30, 2008 as follows:

	General Fund
Economic Uncertainties	$ 7,236,031
El Rancho	1,108,278
Non-Resident Tuition	56,127
Schoolsite Carryovers	95,283
Schoolsite/Department Donations	636,706
Oral Health	21,475
Supplementary Retirement Plan	2,021,301
Total	$ 11,175,201

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Land	$ 19,687,697	$ -	$ -	$ 19,687,697
Site improvements	13,073,074	-	2,291,874	10,781,200
Buildings and improvements	82,466,869	-	7,784,890	74,681,979
Furniture and equipment	14,026,594	219,423	6,770,033	7,475,984
Work in progress	22,577,510	36,146,721	-	58,724,231
Total at historical cost	$ 151,831,744	$ 36,366,144	$ 16,846,797	$ 171,351,091
Less accumulated depreciation:				
Site improvements	9,720,748	506,825	1,845,218	8,382,355
Buildings	47,063,092	1,485,893	5,986,848	42,562,137
Furniture and equipment	10,923,070	189,089	5,858,053	5,254,106
Total accumulated depreciation	67,706,910	2,181,807	13,690,119	56,198,598
Governmental activities capital assets, net	$ 84,124,834	$ 34,184,337	$ 3,156,678	$ 115,152,493

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Certificates of participation	$ 51,480,000	$ -	$ 610,000	$ 50,870,000	$ 370,000
Compensated absences	2,574,647	-	221,229	2,353,418	-
Capital leases	5,955,439	7,251,360	543,772	12,663,027	862,511
Special tax revenue bonds	23,540,000	-	1,165,000	22,375,000	1,230,000
Retirement health benefits funding bonds	-	94,765,000	-	94,765,000	1,000,000
Supplementary retirement plan	-	10,111,669	-	10,111,669	2,021,301
Child development portables	61,810	-	12,362	49,448	12,362
Totals - Governmental Activities	$ 83,611,896	$ 112,128,029	$ 2,552,363	$ 193,187,562	$ 5,496,174

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2008 amounted to $2,353,418. This amount is included as part of long-term liabilities in the government-wide statements.

B. Certificates of Participation

The school financing agreement, dated May 1, 2003, is between the Orange Unified School District as the "lessee" and the Orange Schools Financing Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity, which was formed for the sole purpose of acquiring equipment and capital outlay and then leasing such items to the district.

The Corporation's funds for acquiring these items were generated by the issuance of $53,000,000 of Certificates of Participation (COPs). COPs are long-term debt instruments, which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease Payments – Lease payments are required to be made by the District under the lease agreement each June 1 through June 1, 2029. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 2% to 4.5% for the length of the issuance.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	$ 370,000	$ 2,309,469	$ 2,679,469
2009-2010	505,000	2,299,293	2,804,293
2010-2011	645,000	2,282,881	2,927,881
2011-2012	795,000	2,260,306	3,055,306
2012-2013	955,000	2,232,481	3,187,481
2013-2018	7,540,000	10,457,906	17,997,906
2018-2023	13,370,000	8,317,082	21,687,082
2023-2028	21,270,000	4,491,364	25,761,364
2028-2029	5,420,000	257,450	5,677,450
Total	$ 50,870,000	$ 34,908,232	$ 85,778,232

C. Special Tax Revenue Bonds

1996 Issue

On August 8, 1996, the Orange Unified School District Public Financing Authority issued Series A of the Community Facilities District #89-1 Special Tax Revenue Bonds in the amount of $4,250,000. The issue consisted of serial bonds with stated interest rates ranging from 4.6% to 5.6% and fully maturing on September 1, 2024. The bonds were issued to fund the construction of District facilities. At June 30, 2008, the principal balance outstanding on the bonds was $2,115,000.

2000 Issue

On March 22, 2000, the Orange Unified School District Public Financing Authority issued $13,720,000 of Series A of the Community Facilities Districts #88-1 and #89-2 Bonds. The issue consists of serial bonds with stated interest rates ranging from 4.75% to 5.3% and maturing September 1, 2014. The bonds were issued to fund the construction of District facilities. At June 30, 2008 the principal balance outstanding on the bonds was $7,805,000.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Special Tax Revenue Bonds (continued)

2006 Issue

On January 6, 2006, the Orange Unified School District Public Financing Authority issued $6,540,000 of the Community Facilities District No. 2005-1 Bonds. The issue consists of: a) serial bonds with a stated interest rate ranging from 3.8% to 5.2% and maturing on September 1, 2021, b) term bond of $850,000 with a stated interest rate of 5.25% and maturing on September 1, 2025, and c) term bond of $4,570,000 with a stated interest rate of 5.375% and maturing on September 1, 2036. At June 30, 2008, the principal balance outstanding on the bonds was $6,535,000.

2007 Issue

On March 9, 2007, the Orange Unified School District Financing Authority issued $5,920,000 of the Community Facilities District No. 2005-2 Bonds. The issue consists of a) serial bonds with a state interest rate ranging from 3.8% to 4.625% and maturing on September 1, 2022, b) term bond of $1,280,000 with a stated interest rate of 4.7% and maturing on September 1, 2028, and c) term bond of $3,505,000 with a stated interest rate of 5% and maturing on September 1, 2037. At June 30, 2008, the principal balance outstanding on the bonds was $5,920,000.

The annual requirements to amortize all special tax revenue bonds payable, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	$ 1,230,000	$ 1,113,510	$ 2,343,510
2009-2010	1,325,000	1,051,075	2,376,075
2010-2011	1,400,000	990,525	2,390,525
2011-2012	1,485,000	933,970	2,418,970
2012-2013	1,570,000	873,245	2,443,245
2013-2018	3,950,000	3,304,144	7,254,144
2018-2023	1,395,000	2,800,167	4,195,167
2023-2028	2,240,000	2,375,526	4,615,526
2028-2033	3,420,000	1,691,239	5,111,239
2033-2038	4,360,000	646,969	5,006,969
Total	$ 22,375,000	$ 15,780,370	$ 38,155,370

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Child Development Portables

The District financed the purchase of Child Development Portables through the California Department of Education's Child Facilities Revolving Fund. The agreement with CDE includes a 0% interest rate for the portable classrooms. During the term of the repayment, the title to the facilities shall be in the name of the State of California. Title shall pass to the District after repayment of all funds. The District bears all the responsibility of maintaining the facilities and keeping the facilities free and clear of any levies, liens and encumbrances.

The loans mature in 2012 and the payments are as follows:

Fiscal Year	Payment
2008-2009	$ 12,362
2009-2010	12,362
2010-2011	12,362
2011-2012	12,362
Total	$ 49,448

E. Capital Leases

The District leases school buses, vans, computers and energy retrofit equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Lease Payments
2008-2009	$ 1,460,381
2009-2010	1,242,586
2010-2011	1,257,120
2011-2012	1,097,153
2012-2013	1,011,102
2013-2018	4,057,944
2018-2023	4,597,348
2023-2028	4,034,398
Total	18,758,032
Less Amount Representing Interest	(6,095,005)
Present Value of Net Minimum Lease Payments	$ 12,663,027

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

F. Retirement Health Benefits Funding Bonds

In May 2008, the District issued $94,765,000 in retirement health benefits funding bonds. The bonds bear interest based on a variable interest rate (initially 3.562%), and mature in May 2043. The bonds were issued by the District to provide funds to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to employment contracts. Proceeds from the bonds were deposited in the District's Retiree Benefits fund, a fiduciary fund of the District. Future principal and interest payments on the retirement health benefits funding bonds are to be made from the District's General fund. The annual requirements to amortize the bonds as of June 30, 2008 are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	$ 1,000,000	$ 4,684,230	$ 5,684,230
2009-2010	1,100,000	4,355,812	5,455,812
2010-2011	1,300,000	4,303,887	5,603,887
2011-2012	1,500,000	4,242,663	5,742,663
2012-2013	1,600,000	4,172,524	5,772,524
2013-2018	9,500,000	19,666,360	29,166,360
2018-2023	11,300,000	17,315,838	28,615,838
2023-2028	14,000,000	14,329,366	28,329,366
2028-2033	16,300,000	10,949,201	27,249,201
2033-2038	20,600,000	6,663,840	27,263,840
2038-2043	16,565,000	2,075,985	18,640,985
Total	$ 94,765,000	$ 92,759,706	$ 187,524,706

G. Supplementary Retirement Plan

In June 2008, the District entered into a supplementary retirement plan with Public Agency Retirement Services (PARS) whereby 156 employees of the District may elect to take early retirement in exchange for supplementary retirement benefits. Future payments for the PARS supplementary retirement plan are as follows:

Fiscal Year	Payment
2008-2009	$ 2,021,301
2009-2010	2,022,592
2010-2011	2,022,592
2011-2012	2,022,592
2012-2013	2,022,592
Total	$ 10,111,669

NOTE 8 – JOINT VENTURES

The Orange School District participates in one joint venture under a joint powers agreement (JPA) with the Southern California ReLiEF. The relationship between the Orange School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provide property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA 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 JPA.

Condensed audited financial information for the most recently audited fiscal period is as follows:

	Southern California ReLiEF June 30, 2007
Assets	$ 39,738,083
Liabilities	$ 25,950,195
Net Assets	$ 13,787,888
Revenues	$ 27,257,159
Expenses	22,005,020
Operating Income	5,252,139
Non-Operating Income	1,961,011
Change in Net Assets	$ 7,213,150

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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.

Construction Commitments

As of June 30, 2008, the District had commitments with respect to unfinished capital projects of approximately $12,454,600 to be paid.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 9, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

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 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were $5,743,877, $3,927,684, and $4,871,207 respectively, which represents 100% of the required contributions for each fiscal year.

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2007-08 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 fiscal years ending June 30, 2008, 2007, and 2006 were $9,743,426, $9,490,895, and $8,682,211, respectively, and equal 100% of the required contributions for each year.

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 $7,734,096 to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Orange Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefits Fund, which is an irrevocable trust. The District implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2006-07.

A. Summary of Significant Accounting Policies

Basis of Accounting: The Retiree Benefits Fund's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. As plan assets are held in an irrevocable trust, investments of plan assets may include investments in equity securities or mutual funds and are not subject to the same limitation on eligible securities that apply to other District funds as per California Government Code Section 16430 and California Education Code Section 41001.

B. Plan Description and Contribution Information

Membership of the plan consisted of the following at October 1, 2007, the date of the latest actuarial valuation:

	Trust Fund Retiree Benefits Fund
Retirees and beneficiaries receiving benefits	917
Active plan members	1,719
Total	2,636
Number of participating employers	1

Plan Description: The District's Retiree Benefits Fund is a single-employer defined benefit postemployment healthcare plan that covers eligible retired employees of the District including all departments. The Fund provides health insurance benefits to eligible retirees and their spouses.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Plan Description and Contribution Information (continued)

Contributions: Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts annually toward the cost of health insurance premiums. Plan members are required to contribute $150 annually for Two Party coverage and $300 for Family coverage, if dependent coverage is elected. The District is required to contribute the balance of the current premium cost.

C. Funded Status and Funding Progress – OPEB Plans

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

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
10/1/2007	2,171,175	167,391,481	165,220,306	1%

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, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Funded Status and Funding Progress – OPEB Plans (continued)

Additional information as of the latest actuarial valuation follows:

	Trust Fund Retiree Benefits Fund
Valuation Date	10/1/2007
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level-Dollar Basis
Remaining Amortization Period	29 years
Asset Valuation	Market Value Basis
Actuarial Assumptions:	
Discount rate	5.5%
Long-term healthcare cost trend rates:	
HMO	5.5%
PPO	5.5%
Dental & Vision	5.0%

D. Annual OPEB Cost and Net OPEB Asset

The following table shows the elements of the District's annual OPEB cost for the year, the amount actually paid on behalf of the plan, and changes in the District's net OPEB asset to the plan for the year ended June 30, 2008:

	Amount
Annual required contribution (ARC)	$ 13,531,444
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	13,531,444
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	1,876,518
Transfer of proceeds of retiree health benefits funding bonds to Retiree Benefit Fund	93,763,635
Total contributions made	95,640,153
Increase in net OPEB asset	82,108,709
Net OPEB asset - July 1, 2007	-
Net OPEB asset - June 30, 2008	$ 82,108,709

Required Supplementary Information

ORANGE UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	$ 161,023,129	$ 162,201,337	$ 162,201,337	$ -
Federal	13,130,286	14,255,027	13,020,909	(1,234,118)
Other State	52,249,605	59,900,634	59,023,253	(877,381)
Other Local	8,898,082	10,375,281	9,374,561	(1,000,720)
Total Revenues	235,301,102	246,732,279	243,620,060	(3,112,219)
Expenditures				
Certificated Salaries	119,383,893	122,767,668	119,711,832	3,055,836
Classified Salaries	37,971,343	39,564,298	38,847,188	717,110
Employee Benefits	45,737,953	42,727,719	41,771,076	956,643
Books and Supplies	15,300,765	16,850,274	11,809,776	5,040,498
Services and Other Operating Expenditures	22,995,113	25,182,950	21,716,125	3,466,825
Capital Outlay	250,000	5,608,744	3,992,383	1,616,361
Direct Support/Indirect Costs	(146,040)	(328,740)	(307,172)	21,568
Other Outgo	2,790,125	3,716,686	3,294,012	422,674
Total Expenditures	244,283,152	256,089,599	240,835,220	15,297,515
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,982,050)	(9,357,320)	2,784,840	12,185,296
Other Financing Sources and Uses				
Interfund Transfers In	-	317,106	317,106	-
Interfund Transfers Out	(1,215,600)	(1,367,152)	(95,130,787)	(93,763,635)
Proceeds from Long-term Debt	-	2,237,801	97,005,111	94,767,310
Total Other Financing Sources and Uses	(1,215,600)	1,187,755	2,191,430	1,003,675
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(10,197,650)	(8,169,565)	4,976,270	13,188,971
Fund Balances, July 1, 2007	24,540,986	24,540,986	24,540,986	-
Fund Balances, June 30, 2008	$ 14,343,336	$ 16,371,421	$ 29,517,256	$ 13,188,971

ORANGE UNIFIED SCHOOL DISTRICT
Schedules of Funding Progress and Employer Contributions
For the Year Ended June 30, 2008

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2006	$ 13,550,427	$ 138,309,571	$ 124,759,144	11%	$ 36,179,801	345%
10/1/2007	2,171,175	167,391,481	165,220,306	1%	36,388,765	454%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	$ 9,752,784	100%
2008	13,531,444	100%

Supplementary Information Section

ORANGE UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS							
Cash	$ 31,620	$ 1,061,319	$ 431,129	$ 3,338,132	$ 4,609,996	$ 6,490,134	$ 15,962,330
Accounts receivable	27,436	140,577	801,115	8,032	10,966	14,746	1,002,872
Inventories	-	-	148,865	-	-	-	148,865
Due from other funds	-	13,957	283	1,179,218	2,320	598,118	1,793,896
Total Assets	$ 59,056	$ 1,215,853	$ 1,381,392	$ 4,525,382	$ 4,623,282	$ 7,102,998	$ 18,907,963
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and accrued liabilities	$ 9,351	$ 392,013	$ 1,002,771	$ 281,310	$ 60,146	$ -	$ 1,745,591
Due to other funds	1,068	166,717	183,319	-	3,609	-	354,713
Deferred revenue	-	-	35,706	-	-	-	35,706
Total Liabilities	10,419	558,730	1,221,796	281,310	63,755	-	2,136,010
Fund Balances							
Reserved for:							
Revolving cash	-	-	10,000	-	-	-	10,000
Inventories	-	-	148,865	-	-	-	148,865
Debt service	-	-	-	-	-	7,102,998	7,102,998
Unreserved:							
Capital projects funds	-	-	-	-	4,559,527	-	4,559,527
Special revenue funds	48,637	657,123	731	4,244,072	-	-	4,950,563
Total Fund Balances	48,637	657,123	159,596	4,244,072	4,559,527	7,102,998	16,771,953
Total Liabilities and Fund Balances	$ 59,056	$ 1,215,853	$ 1,381,392	$ 4,525,382	$ 4,623,282	$ 7,102,998	$ 18,907,963

ORANGE UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Funds
For the Year Ended June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES							
General Revenues:							
Earnings on investments	$ -	$ -	$ -	$ -	$ 214,924	$ 264,295	$ 479,219
Miscellaneous	-	-	-	-	654,106	4,237,703	4,891,809
Program Revenues:							
Charges for services	-	4,470,149	2,987,729	-	-	-	7,457,878
Operating grants and contributions	39,228	1,201,344	5,078,602	1,201,778	-	-	7,520,952
Total Revenues	39,228	5,671,493	8,066,331	1,201,778	869,030	4,501,998	20,349,858
EXPENDITURES							
Instructional Services:							
Instruction	39,967	4,380,693	-	-	-	-	4,420,660
Supervision of instruction	-	28,036	-	-	-	-	28,036
Instructional library, media and technology	-	6,172	-	-	-	-	6,172
School site administration	142	943,555	-	-	-	-	943,697
Pupil Support Services:							
Food services	-	-	7,949,724	-	-	-	7,949,724
All other pupil services	945	29	-	-	-	-	974
General Administration Services:							
Other general administration	1,066	140,884	165,221	-	26,318	-	333,489
Plant services	-	62,927	-	1,576,092	-	-	1,639,019
Facility acquisition and construction	-	-	-	725,245	949,793	-	1,675,038
Other outgo:							
Transfers between agencies	-						
Debt service - principal	-	39,977	13,321	-	252,128	240,000	545,426
Debt service - interest	-	-	1,219	-	11,325	2,307,961	2,320,505
Total Expenditures	42,120	5,602,273	8,129,485	2,301,337	1,239,564	2,547,961	19,862,740
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,892)	69,220	(63,154)	(1,099,559)	(370,534)	1,954,037	487,118
OTHER FINANCING SOURCES (USES)							
Proceeds from long term debt	-	125,000	65,837	-	-	-	190,837
Interfund transfers in	-	-	-	1,304,180	-	-	1,304,180
Total Other Financing Sources and Uses	-	125,000	65,837	1,304,180	-	-	1,495,017
Net Change in Fund Balances	(2,892)	194,220	2,683	204,621	(370,534)	1,954,037	1,982,135
Fund Balances, July 1, 2007	51,529	462,903	156,913	4,039,451	4,930,061	5,148,961	14,789,818
Fund Balances, June 30, 2008	$ 48,637	$ 657,123	$ 159,596	$ 4,244,072	$ 4,559,527	$ 7,102,998	$ 16,771,953

ORANGE UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Blended Component Units
June 30, 2008

	Orange Schools Financing Authority	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Del Rio CFD #2007-1	Total Blended Component Units
ASSETS						
Cash	$ 14,257,146	$ 967,618	$ 2,981,848	$ 3,243,158	$ 5,474,042	$ 26,923,812
Total Assets	$ 14,257,146	$ 967,618	$ 2,981,848	$ 3,243,158	$ 5,474,042	$ 26,923,812
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 1,955,553	$ -	$ -	$ 69,292	$ -	$ 2,024,845
Total Liabilities	1,955,553	-	-	69,292	-	2,024,845
FUND BALANCES						
Unreserved:						
Capital projects funds	12,301,593	967,618	2,981,848	3,173,866	5,474,042	24,898,967
Total Liabilities and Fund Balances	$ 14,257,146	$ 967,618	$ 2,981,848	$ 3,243,158	$ 5,474,042	$ 26,923,812

ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Blended Component Units

For the Year Ended June 30, 2008

	Orange Schools Financing Authority	Canyon Rim CFD #89-1	Chapman Hills and Running Springs CFD #88-1 & #89-2	Tremont CFD #2005-1	Del Rio CFD #2007-1	Total Blended Component Units
REVENUES						
General Revenues:						
Taxes levied for other specific purposes	$ -	$ 383,748	$ 1,422,803	$ 415,926	$ 180,407	$ 2,402,884
Earnings on investments	1,468,202	25,844	102,299	106,593	174,778	1,877,716
Total revenues	1,468,202	409,592	1,525,102	522,519	355,185	4,280,600
EXPENDITURES						
Principal	-	245,000	915,000	5,000	-	1,165,000
Interest	7,508	122,857	417,334	345,117	269,040	1,161,856
General Administration Services:						
Other general administration	-	14,604	19,566	10,230	13,458	57,858
Facility acquisition and construction	13,261,615	-	-	253,607	104,151	13,619,373
Total expenditures	13,269,123	382,461	1,351,900	613,954	386,649	16,004,087
Net Change in Fund Balances	(11,800,921)	27,131	173,202	(91,435)	(31,464)	(11,723,487)
Fund Balances, July 1, 2007	24,102,514	940,487	2,808,646	3,265,301	5,505,506	36,622,454
Fund Balances, June 30, 2008	$ 12,301,593	$ 967,618	$ 2,981,848	$ 3,173,866	$ 5,474,042	$ 24,898,967

ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Assets and Liabilities – Student Body Funds – Summary

June 30, 2008

	High Schools	Middle Schools	Elementary Schools	Totals
ASSETS				
Cash on hand and in banks	$1,471,332	$ 242,611	$ 194,330	$ 1,908,273
Total Assets	$1,471,332	$ 242,611	$ 194,330	$ 1,908,273
LIABILITIES				
Due to student groups	$1,471,332	$ 242,611	$ 194,330	$ 1,908,273
Total Liabilities	$1,471,332	$ 242,611	$ 194,330	$ 1,908,273

ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Assets and Liabilities – Student Body Funds – High Schools

June 30, 2008

	Canyon High School	El Modena High School	Orange High School	Richland High School	Villa Park High School	Career Education Center ROP	Totals
ASSETS							
Cash on hand and in banks	$ 429,122	$ 356,400	$ 185,334	$ 4,782	$ 488,551	$ 7,143	$ 1,471,332
Total Assets	$ 429,122	$ 356,400	$ 185,334	$ 4,782	$ 488,551	$ 7,143	$ 1,471,332
LIABILITIES							
Due to student groups	$ 429,122	$ 356,400	$ 185,334	$ 4,782	$ 488,551	$ 7,143	$ 1,471,332
Total Liabilities	$ 429,122	$ 356,400	$ 185,334	$ 4,782	$ 488,551	$ 7,143	$ 1,471,332

ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Assets and Liabilities – Student Body Funds – Middle Schools

June 30, 2008

	Cerro Villa Middle School	El Rancho Middle School	Portola Middle School	Yorba Middle School	Totals
ASSETS					
Cash on hand and in banks	$ 121,927	$ 87,747	$ 17,666	$ 15,271	$ 242,611
Total Assets	$ 121,927	$ 87,747	$ 17,666	$ 15,271	$ 242,611
LIABILITIES					
Due to student groups	$ 121,927	$ 87,747	$ 17,666	$ 15,271	$ 242,611
Total Liabilities	$ 121,927	$ 87,747	$ 17,666	$ 15,271	$ 242,611

ORANGE UNIFIED SCHOOL DISTRICT

Combining Statement of Assets and Liabilities – Student Body Funds – Elementary Schools

June 30, 2008

	Anaheim Hills	Cambridge	Canyon Rim	Chapman Hills	Crescent	Fletcher	Imperial	La Veta	Lampson	Linda Vista	McPherson
ASSETS											
Cash on hand and in banks	$ 5,805	$ 1,277	$ 11,383	$ 8,066	$ 4,844	$ 1,320	$ 4,831	$ 38,016	$ 11,652	$ 12,643	$ 10,168
Total Assets	$ 5,805	$ 1,277	$ 11,383	$ 8,066	$ 4,844	$ 1,320	$ 4,831	$ 38,016	$ 11,652	$ 12,643	$ 10,168
LIABILITIES											
Due to student groups	$ 5,805	$ 1,277	$ 11,383	$ 8,066	$ 4,844	$ 1,320	$ 4,831	$ 38,016	$ 11,652	$ 12,643	$ 10,168
Total Liabilities	$ 5,805	$ 1,277	$ 11,383	$ 8,066	$ 4,844	$ 1,320	$ 4,831	$ 38,016	$ 11,652	$ 12,643	$ 10,168

	Nohl Canyon	Olive	Palmyra	Panorama	Running Springs	Serrano	Sycamore	Taft	Villa Park	West Orange	Totals
ASSETS											
Cash on hand and in banks	$ 343	$ 16,940	$ 14,048	$ 20,488	$ 25,810	$ 1,968	$ 299	$ 1,419	$ 1,605	$ 1,405	$ 194,330
Total Assets	$ 343	$ 16,940	$ 14,048	$ 20,488	$ 25,810	$ 1,968	$ 299	$ 1,419	$ 1,605	$ 1,405	$ 194,330
LIABILITIES											
Due to student groups	$ 343	$ 16,940	$ 14,048	$ 20,488	$ 25,810	$ 1,968	$ 299	$ 1,419	$ 1,605	$ 1,405	$ 194,330
Total Liabilities	$ 343	$ 16,940	$ 14,048	$ 20,488	$ 25,810	$ 1,968	$ 299	$ 1,419	$ 1,605	$ 1,405	$ 194,330

ORANGE UNIFIED SCHOOL DISTRICT
Local Education Agency Organization Structure
June 30, 2008

The Orange Unified School District was established in 1953 and is comprised of an area of approximately 108 square miles located in Orange County. There were no changes in the boundaries of the District during the current year. The District is operating 30 elementary schools, 5 middle schools, 4 high schools, one continuation school, one special education facility, and a career education center.

GOVERNING BOARD

Member	Office	Term Expires
Wes Poutsma	President	2008
Melissa J. Smith	Vice President	2010
Kimberlee Nichols	Clerk	2010
Rick Ledesma	Member	2010
Kathryn A. Moffat	Member	2010
John H. Ortega	Member	2008
Steve Rocco	Member	2008

DISTRICT ADMINISTRATORS

Renae Dreier, Ed.D.,
Superintendent

Jon M. Archibald,
Assistant Superintendent, Business Services

Michael L. Christensen, MBA
Assistant Superintendent, Administrative Services

Ed Kissee,
Assistant Superintendent, Human Resources

Marsha Brown, Ed.D.,
Assistant Superintendent, Educational Services

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	1,863	1,869
Grades 1 through 6, regular classes	12,376	12,408
Grades 7 and 8, regular classes	2,462	2,461
Home and Hospital	15	15
Community Day School	9	12
Special Education	613	621
Total Elementary	17,338	17,386
Secondary:		
Grades 9 Through 12, regular classes	8,512	8,471
Continuation Education	298	294
Home and Hospital	40	44
Community Day School	18	23
Special Education	424	423
Total Secondary	9,292	9,255
Classes for Adults:		
Not Concurrently Enrolled	2	28
Total Adult Classes	2	28
Charter Schools:		
Classroom Based	1,131	1,130
Non-Classroom Based	3	3
Total Charter Schools	1,134	1,133
Total Average Daily Attendance	27,766	27,802

Supplemental Instruction Hours	Hours of Attendance
Elementary	161,534
High School	266,017
Charter Schools	18,511

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Year Ended June 30, 2008

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-08 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multi-track Year Round	Status
Kindergarten	31,680	36,000	36,000	180	175	Complied
Grade 1	43,324	50,400	50,670	180	175	Complied
Grade 2	43,324	50,400	50,670	180	175	Complied
Grade 3	43,324	50,400	50,670	180	175	Complied
Grade 4	49,774	54,000	54,070	180	175	Complied
Grade 5	49,774	54,000	54,070	180	175	Complied
Grade 6	49,774	54,000	54,070	180	175	Complied
Grade 7	62,589	54,000	62,676	180	175	Complied
Grade 8	62,589	54,000	62,676	180	175	Complied
Grade 9	62,300	64,800	64,830	180	175	Complied
Grade 10	62,300	64,800	64,830	180	175	Complied
Grade 11	62,300	64,800	64,830	180	175	Complied
Grade 12	62,300	64,800	64,830	180	175	Complied

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Year Ended June 30, 2008

General Fund	(Budget) 2009***	2008	2007	2006
Revenues and other financing sources	$ 233,065,390	$ 340,942,277	$ 251,299,408	$ 223,421,611
Expenditures	246,750,355	240,835,220	247,181,096	219,283,199
Other uses and transfers out	-	95,130,787	1,284,955	2,149,454
Total outgo	246,750,355	335,966,007	248,466,051	221,432,653
Change in fund balance (deficit)	(13,684,965)	4,976,270	2,833,357	1,988,958
Ending fund balance	$ 15,832,291	$ 29,517,256	$ 24,540,986	$ 21,707,629
Available reserves*	$ 12,628,572	$ 18,174,151	$ 16,503,299	$ 16,758,245
Available reserves as a percentage of total outgo	5.1%	5.4%	6.6%	7.6%
Total long-term debt	$ 187,691,388	$ 193,187,562	$ 83,611,896	$ 74,360,977
Average daily attendance at P-2**	26,651	26,630	26,796	27,471

The General Fund balance has increased by $7,809,627 over the past two years. The fiscal year 2007-08 adopted budget projects a decrease of $13,684,965. 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). Long-term debt has increased $118,826,585 over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Excludes Adult Education and Charter School ADA.

*** Revised Final Budget September 2008.

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch and Breakfast	10.555	13523	$ 4,492,492
Total U.S. Department of Agriculture			4,492,492
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I - Part A, Grants to Local Educational Agencies	84.010	13797	3,879,243
Title I - Part A, Non-Program Improvement LEA	84.010	14796	93,121
Title I - Part B, Reading First	84.357	14328	716,154
Title II - Vocational and Applied Tech	84.243	13929	10,000
Title II - Part D Enhancing Education Through Technology (EETT)	84.318	14334	37,589
Title II - Part D EETT Competitive Grants	84.318	14368	411,500
Title II - Part A Impr Teacher Quality	84.367A	14341	1,029,346
Title II - Part A Principal Training	84.367	14344	3,600
Title III - Immigrant Education	84.365	14346	19,841
Title III - Limited English Proficiency	84.365	10084	534,099
Title IV - Safe and Drug Free Schools	84.186	14347	118,521
Title V - Innovative Education	84.298A	13340	39,512
Indian Education	84.060A	10011	78,801
Vocational Programs	84.048	13924	203,807
Special Ed: State Improvement Grant	84.372	14577	2,800.00
Individuals with Disabilities Education Act (IDEA):			
Preschool Grants	84.173	13430	139,852
Preschool Staff Development	84.173A	13431	2,227
Early Intervention Grants	84.181	23761	86,305
Preschool Local Entitlements, Part B	84.027	13682	245,861
Basic Local Assistance Entitlement, Part B	84.027	13379	5,004,094
Total U.S. Department of Education			12,656,273
U.S. Department of Health & Human Services:			
Passed through California Dept of Education:			
Child Development: Infant Toddler	93.575	14679	3,464
Child Development: School Age Resource Contract	93.575	13941	2,752
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	317,474
Total U.S. Department of Health & Human Services			323,690
Total Expenditures of Federal Awards			$ 17,472,455

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
For the Year Ended June 30, 2008

Charter School	Inclusion in Financial Statements
Santiago Charter Middle School	Not included
El Rancho Charter School	Included

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

For the Year Ended June 30, 2008

There were no audit adjustments required to reconcile the Annual Financial and Budget Report with the Audited Financial Statements in fiscal year 2007-08.

The accompanying note is an integral part of this schedule.

ORANGE UNIFIED SCHOOL DISTRICT
Schedule of Excess Sick Leave
June 30, 2008

Orange Unified School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Assistant Superintendent
3. Principals and other management
4. Employees covered by bargaining agreement dated July 1, 2005 through July 1, 2008 between the District and the Orange Unified Education Association.

The accompanying note is an integral part of this schedule.

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 required by Education Code section 46201.

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

Subrecipients

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

Schedule of Charter Schools

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

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 Excess Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports

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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*

We have audited the financial statements of Orange Unified School District as of and for the year ended June 30, 2008, and have issued our report thereon October 20, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider finding #2008-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

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.

Rizzo Rizzo & White, PC

San Diego, California
October 20, 2008

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

Compliance

We have audited the compliance of Orange Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Orange Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Orange Unified School District's management. Our responsibility is to express an opinion on Orange Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards; generally accepted in the United States; 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 Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Orange Unified School District's compliance with those requirements.

In our opinion, Orange Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended solely for the information and use of the 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.

Rizzo Rizzo & White, PC

San Diego, California
October 20, 2008

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AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Orange Unified School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2007-2008*, published by the Education Audit Appeals Panel. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (See Below)
Continuation Education	10	Yes
Adult Education	9	No (See Below)
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Not applicable
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Yes

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

Based on our audit, we found that, for the items tested, the Orange Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Orange Unified School District had not complied with the state laws and regulations.

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.

Rizzo Rizzo & White, PC

San Diego, California
October 20, 2008

Findings and Questioned Costs Section

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.357	Title I - Reading First
84.367A	Title II - Teacher Quality
84.365	Title III - LEP
10.555	National School Lunch Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 524,174
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for state programs:	Unqualified

Section II – Financial Statement Findings

This section identifies the reportable conditions, 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:

Five Digit Code	AB 3627 Finding Types
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

Finding #2008-1 Associated Student Body Funds (30000)

Our audit of the El Modena High School ASB account noted the following internal control deficiencies:

- Deposits of cash collected for ASB activities were not made timely in 2007-08. In September 2008, $106,278 in cash and checks were deposited by District personnel. The September 2008 deposit included ASB collections dating back to December 2007.
- Of the total June 2008 deposits amounting to $94,882, only $61,701 was recorded in the ASB's general ledger.
- Bank accounts were not reconciled timely following the end of each month in 2007-08. For example, the February 2008 bank reconciliation was not prepared until July 2008.
- Cash receipts were missing supporting documentation such as deposit worksheets or sales logs.
- Four of six vendor payments tested in 2007-08 were missing approval signatures from all three required approvers (ASB officer, administrator, and faculty sponsor).
- A $9,950 vendor payment to Yearbook West on May 23, 2008 for yearbook camp fees was missing an invoice on file to support vendor name and invoice date.

Section II – Financial Statement Findings, Continued

Finding #2008-1 Associated Student Body Funds (30000)(Continued)

Recommendation: We recommend that:

- Cash deposits are made timely, generally within one week of collection.
- All ASB financial transactions are timely recorded in the general ledger.
- Bank reconciliations are performed immediately upon receipt of the monthly bank statement.
- Completed bank reconciliations are sent timely to the District office for review.
- Sales logs or other detailed evidence of cash receipts are kept on file to support all ASB collection types, particularly for significant activities such as sporting events, dances, and track sales.
- Expenditures are properly authorized and supported by documentation such as the original vendor's invoice or receipt.

District Response: We concur with the auditor findings. In 2008-09, the District is in the process of addressing the noted internal control deficiencies at El Modena High School ASB.

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., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no audit findings and questioned costs related to Federal awards during 2007-08.

Section IV – State Award Findings and Questioned Costs

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

There were no audit findings and questioned costs related to State awards during 2007-08.

ORANGE UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008

There were no prior year audit findings.