

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



**ADELANTO SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2011*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Adelanto School District  
Adelanto, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

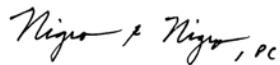
As more fully described in Finding 2011-1, certain improvements to and replacements of property and equipment have been charged to expense in the accompanying financial statements. However, the amount of expenditures that should be capitalized and depreciated cannot be determined from the District's accounting records. In our opinion, all capital expenditures should be capitalized and depreciated over the estimated useful lives to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011 on our consideration of Adelanto School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and the required supplementary information on pages 44 and 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adelanto 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 basic financial statements taken as a whole.

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

December 15, 2011

# ADELANTO SCHOOL DISTRICT

## Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2011

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

### **FINANCIAL HIGHLIGHTS**

- The District's overall financial status improved from last year, as the net assets increased by 26.5% to \$141.5 million
- Total governmental revenues were \$96.3 million, \$29.6 million more than expenses.
- The total cost of basic programs was \$66.7 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$20.9 million.
- Average daily attendance (ADA) in grades K-8 decreased by 72, or 0.9%.

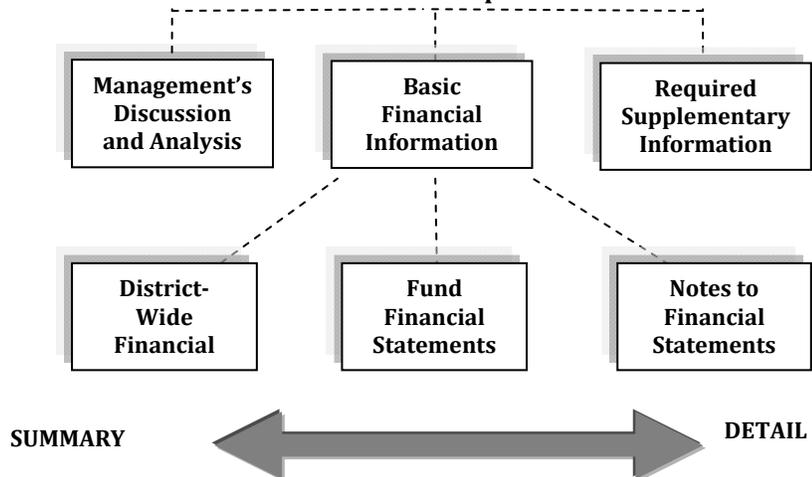
### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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



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

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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

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

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

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

## ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2011*

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

#### District-wide Statements

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

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

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

#### Fund Financial Statements

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

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

The District has two kinds of funds:

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

## ADELANTO SCHOOL DISTRICT

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

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### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Assets.** The District's combined net assets were higher on June 30, 2011, than they were the year before – increasing 26.5% to \$141.5 million. (See Table A-1.)

**Table A-1: Net Assets**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
Current and other assets	\$ 66.0	\$ 47.2	\$ 18.8
Capital assets	141.3	130.2	11.1
<b>Total assets</b>	<b>207.3</b>	<b>177.4</b>	<b>29.9</b>
Current liabilities	6.4	5.9	0.5
Long-term debt liabilities	59.3	59.6	(0.3)
<b>Total liabilities</b>	<b>65.7</b>	<b>65.5</b>	<b>0.2</b>
Net assets			
Invested in capital assets,	85.4	73.3	12.1
Restricted	48.7	32.2	16.5
Unrestricted	7.4	6.4	1.0
<b>Total net assets</b>	<b>\$ 141.5</b>	<b>\$ 111.9</b>	<b>\$ 29.6</b>

\*As restated

**Changes in net assets, governmental activities.** The District's total revenues increased 55.1% to \$96.3 million (See Table A-2). The increase is due primarily to \$34.3 million in State facility grants received from OPSC.

The total cost of all programs and services decreased 1.9% to \$66.7 million. The District's expenses are predominantly related to educating and caring for students, 68.4%. The purely administrative activities of the District accounted for just 5.8% of total costs. A significant contributor to the decrease in costs was the District's budget cuts necessitated by declining ADA and State funding cuts.

**Table A-2: Changes in Net Assets**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
Total Revenues	\$ 96.3	\$ 62.1	\$ 34.2
Total Expenses	66.7	68.0	(1.3)
Increase (decrease) in net assets	\$ 29.6	\$ (5.9)	\$ 35.5

## ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011*

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### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$59.5 million, which is above last year's ending fund balance of \$41.3 million. The overall increase in the fund balances resulted from a net increase of about \$17.9 million in the County School Facilities Fund.

#### General Fund Budgetary Highlights

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

- Revenues – increased by \$3.6 million primarily to reflect federal and state budget actions
- Salaries and benefits costs – decreased about \$0.7 million with decreased salaries
- Other non-capital expenses – increased \$1.1 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the General Fund anticipated revenues would fall short of expenditures by about \$0.4 million, the actual results for the year show that revenues exceeded expenditures by roughly \$1.6 million. Actual revenues were \$0.9 million less than anticipated, but expenditures were \$2.9 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2011 that will be carried over into the 2011-12 budget.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of 2010-11 the District had invested \$17.4 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$6.2 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
Land	\$ 17.2	\$ 17.2	\$ -
Improvement of sites	1.0	1.3	(0.3)
Buildings	76.9	81.9	(5.0)
Furniture and equipment	1.1	1.4	(0.3)
Construction in progress	45.1	28.4	16.7
Total	<u>\$ 141.3</u>	<u>\$ 130.2</u>	<u>\$ 11.1</u>

## ADELANTO SCHOOL DISTRICT

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

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### CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

#### Long-Term Debt

At year-end the District had \$59.3 million in general obligation bonds, certificates of participation, capital leases, employment benefits and CFD bonds – a decrease of 0.5% from last year – as shown in Table A-4. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2011	2010	
General obligation bonds	\$ 27.2	\$ 27.5	\$ (0.3)
CFD bonds	20.0	20.3	(0.3)
Certificate of participation	9.2	9.2	-
Capital leases	0.1	0.2	(0.1)
Early retirement incentives	0.8	1.0	(0.2)
Compensated absences	0.6	0.6	-
Other postemployment benefits	1.4	0.8	0.6
Total	<u>\$ 59.3</u>	<u>\$ 59.6</u>	<u>\$ (0.3)</u>

### FACTORS BEARING ON THE DISTRICT'S FUTURE

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

#### Proposition 98

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

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

## ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011*

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### FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

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

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

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

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

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

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

## ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011*

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### FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

#### **K-12 Education**

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

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

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

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

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

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

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

## **ADELANTO SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011*

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

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

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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

**ADELANTO SCHOOL DISTRICT**  
*Statement of Net Assets*  
*June 30, 2011*

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	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 47,629,646
Investments	4,368,164
Accounts receivable	13,572,215
Inventories	283,008
Prepaid expenses	155,153
Total current assets	<u>66,008,186</u>
<b>Capital assets:</b>	
Land	17,229,842
Improvement of sites	3,718,702
Buildings	105,191,483
Furniture and equipment	8,343,490
Construction in progress	45,130,650
Less accumulated depreciation	<u>(38,324,006)</u>
Total capital assets, net of depreciation	<u>141,290,161</u>
Total assets	<u>207,298,347</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts payable	5,121,923
Deferred revenues	1,343,289
Total current liabilities	<u>6,465,212</u>
<b>Long-term liabilities:</b>	
Portion due or payable within one year:	2,949,443
Portion due or payable after one year:	<u>56,333,200</u>
Total long-term liabilities	<u>59,282,643</u>
Total liabilities	<u>65,747,855</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	85,445,578
Restricted for:	
Capital projects	39,370,003
Debt service	6,313,618
Categorical programs	3,061,603
Unrestricted	<u>7,359,690</u>
Total net assets	<u>\$ 141,550,492</u>

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

**ADELANTO SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2011*

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
<b>Instructional Services:</b>					
Instruction	\$ 32,309,276	\$ 30,326	\$ 5,248,589	\$ 34,301,414	\$ 7,271,053
<b>Instruction-related services:</b>					
Supervision of instruction	1,259,769	2,380	415,946	-	(841,443)
Instructional library, media and technology	361,063	-	-	-	(361,063)
School site administration	3,865,941	1,758	64,144	-	(3,800,039)
<b>Pupil Support Services:</b>					
Home-to-school transportation	2,070,584	-	396,847	-	(1,673,737)
Food services	3,904,696	214,917	4,013,080	-	323,301
All other pupil services	1,823,439	-	163,093	-	(1,660,346)
<b>General Administration Services:</b>					
Data processing services	737,180	-	16,612	-	(720,568)
Other general administration	3,139,417	-	280,042	-	(2,859,375)
Plant services	7,392,271	64,834	91,644	-	(7,235,793)
Community services	43,762	-	29,672	-	(14,090)
Interest on long-term debt	3,509,237	-	-	-	(3,509,237)
Other outgo	1,060	474,974	27,901	-	501,815
Depreciation (unallocated)	6,276,596	-	-	-	(6,276,596)
<b>Total Governmental Activities</b>	<b>\$ 66,694,291</b>	<b>\$ 789,189</b>	<b>\$ 10,747,570</b>	<b>\$ 34,301,414</b>	<b>(20,856,118)</b>
<b>General Revenues:</b>					
Property taxes					6,984,731
Federal and state aid not restricted to specific purpose					42,312,561
Interest and investment earnings					74,408
Interagency revenues					26,127
Miscellaneous					1,075,661
<b>Total general revenues</b>					<b>50,473,488</b>
Change in net assets					29,617,370
Net assets - July 1, 2010					111,933,122
Net Assets - June 30, 2011					<b>\$ 141,550,492</b>

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

**ADELANTO SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2011*

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 7,942,798	\$ 34,132,154	\$ 5,554,694	\$ 47,629,646
Investments	-	-	4,368,164	4,368,164
Accounts receivable	13,039,299	67,857	465,059	13,572,215
Due from other funds	-	4,000,000	-	4,000,000
Inventories	73,665	-	209,343	283,008
Prepaid expenditures	155,153	-	-	155,153
Total Assets	<u>\$ 21,210,915</u>	<u>\$ 38,200,011</u>	<u>\$ 10,597,260</u>	<u>\$ 70,008,186</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,642,431	\$ 1,432,550	\$ 46,942	\$ 5,121,923
Due to other funds	4,000,000	-	-	4,000,000
Deferred revenue	1,343,289	-	-	1,343,289
Total Liabilities	<u>8,985,720</u>	<u>1,432,550</u>	<u>46,942</u>	<u>10,465,212</u>
<b>Fund Balances</b>				
Nonspendable	288,818	-	210,288	499,106
Restricted	3,061,603	36,767,461	9,269,816	49,098,880
Assigned	605,822	-	1,070,214	1,676,036
Unassigned	8,268,952	-	-	8,268,952
Total Fund Balances	<u>12,225,195</u>	<u>36,767,461</u>	<u>10,550,318</u>	<u>59,542,974</u>
Total Liabilities and Fund Balances	<u>\$ 21,210,915</u>	<u>\$ 38,200,011</u>	<u>\$ 10,597,260</u>	<u>\$ 70,008,186</u>

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

**ADELANTO SCHOOL DISTRICT**

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

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**Total fund balances - governmental funds** \$ 59,542,974

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 \$179,614,167 and the accumulated depreciation is (\$38,324,006).

141,290,161

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

General obligation bonds payable	27,151,203	
Certificates of participation payable	9,225,024	
Compensated absences payable	557,914	
Capital leases payable	93,460	
Early retirement incentive	856,022	
Other postemployment benefits	1,429,020	
Special tax bonds	<u>19,970,000</u>	<u>(59,282,643)</u>

**Total net assets - governmental activities**

\$ 141,550,492

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

# ADELANTO SCHOOL DISTRICT

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Fiscal Year Ended June 30, 2011

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General Revenues:				
Property taxes	\$ 3,174,083	\$ -	\$ 3,810,648	\$ 6,984,731
Federal and state aid not restricted to specific purpose	42,312,561	-	-	42,312,561
Earnings on investments	51,598	-	22,810	74,408
Interagency revenues	26,127	-	-	26,127
Miscellaneous	607,397	-	468,264	1,075,661
Program Revenues:				
Charges for services	(167,198)	-	956,387	789,189
Operating grants and contributions	6,626,585	-	4,120,985	10,747,570
Capital grants and contributions	-	34,301,414	-	34,301,414
Total Revenues	<u>52,631,153</u>	<u>34,301,414</u>	<u>9,379,094</u>	<u>96,311,661</u>
<b>EXPENDITURES</b>				
Instructional Services:				
Instruction	32,067,069	-	-	32,067,069
Instruction-Related Services:				
Supervision of instruction	1,036,875	-	-	1,036,875
Instructional library, media and technology	341,919	-	-	341,919
School site administration	3,887,203	-	-	3,887,203
Pupil Support Services:				
Home-to-school transportation	2,063,022	-	-	2,063,022
Food services	15,408	-	4,154,654	4,170,062
All other pupil services	1,814,025	-	-	1,814,025
Community services	43,762	-	-	43,762
General Administration Services:				
Data processing services	737,180	-	-	737,180
Other general administration	3,150,787	-	161,250	3,312,037
Plant services	6,159,715	-	137,449	6,297,164
Facility acquisition and construction	38,366	17,844,472	206,833	18,089,671
Other outgo:				
Transfers between agencies	1,060	-	-	1,060
Debt service - principal	83,910	-	1,263,994	1,347,904
Debt service - interest	10,136	-	2,871,029	2,881,165
Total Expenditures	<u>51,450,437</u>	<u>17,844,472</u>	<u>8,795,209</u>	<u>78,090,118</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,180,716</u>	<u>16,456,942</u>	<u>583,885</u>	<u>18,221,543</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	-	1,450,399	-	1,450,399
Interfund transfers out	-	-	(1,450,399)	(1,450,399)
Total Other Financing Sources and Uses	<u>-</u>	<u>1,450,399</u>	<u>(1,450,399)</u>	<u>-</u>
Net Change in Fund Balances	<u>1,180,716</u>	<u>17,907,341</u>	<u>(866,514)</u>	<u>18,221,543</u>
Fund Balances, July 1, 2010, as originally stated	10,000,459	18,860,120	12,459,455	41,320,034
Adjustments for Restatement	1,044,020	-	(1,042,623)	1,397
Fund Balances, July 1, 2010, as restated	<u>11,044,479</u>	<u>18,860,120</u>	<u>11,416,832</u>	<u>41,321,431</u>
Fund Balances, June 30, 2011	<u>\$ 12,225,195</u>	<u>\$ 36,767,461</u>	<u>\$ 10,550,318</u>	<u>\$ 59,542,974</u>

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

## ADELANTO SCHOOL DISTRICT

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

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**Total net change in fund balances - governmental funds** \$ 18,221,543

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	17,377,667	
Depreciation expense	<u>(6,276,596)</u>	11,101,071

In governmental funds, repayments of long-term debt are reported as expenditures.

In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,347,904

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (617,484)

Amortization of debt issue premium or discount: In the governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: (10,587)

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*). 24,119

In the government-wide statements expenses must be incurred in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 142,562

In governmental funds, postemployment benefits costs are recognized as expenditures in the period that they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (591,758)

**Change in net assets of governmental activities** \$ 29,617,370

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

**ADELANTO SCHOOL DISTRICT**  
*Statement of Net Assets – Fiduciary Fund*  
*June 30, 2011*

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	<b>Agency Funds</b>
	<b>Student Body Funds</b>
<b>Assets</b>	
Cash	\$ 26,089
<b>Total Assets</b>	<b>\$ 26,089</b>
<b>Liabilities</b>	
Due to student groups	\$ 26,089
<b>Total Liabilities</b>	<b>\$ 26,089</b>

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

# ADELANTO SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2011

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Policies

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

#### B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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

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

<u>Date of Formation</u>	<u>Name</u>	<u>Area</u>
April 19, 2005	CFD No. 1	West Creek
September 6, 2005	CFD No. 2	New West
August 2, 2006	CDF No. 3	Griffin Communities
December 4, 2006	CFD No. 4	American Heritage
September 13, 2006	CFD No. 5	K. Hovnanian

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

#### Financial Presentation

For financial presentation purposes, each component unit's financial activity will be blended, or combined, with the financial data of the District. Special Tax Bonds issued by the CFDs and fixed assets acquired or constructed by the component units will be included on the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

## **ADELANTO SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2011*

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **B. Reporting Entity (continued)**

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

###### **Manifestations of Oversight**

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

###### **Accountability of Fiscal Matters**

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

###### **Scope of Public Service**

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

##### **C. Basis of Presentation**

###### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement activities) report information on all of the nonfiduciary activities of the District.

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses for depreciation to functions in the statement of activities. 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.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation (continued)**

**Fund Financial Statements**

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

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

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

**D. Basis of Accounting**

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

**Revenues – exchange and non-exchange transactions**

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### D. Basis of Accounting (continued)

###### Deferred revenue

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

###### Expenses/expenditures

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

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

##### E. Fund Accounting

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

###### Governmental Fund Type Definitions

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

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

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

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### E. Fund Accounting (continued)

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

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

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

##### Major Governmental Funds

The District maintains the following major governmental funds:

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

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

##### Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

##### Special Revenue Funds:

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

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Fund Accounting (continued)**

**Non-Major Governmental Funds (continued):**

**Capital Projects Funds:**

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

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

**Debt Service Funds:**

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

**Debt Service Fund for Blended Component Units:** This fund is used to account for the debt service activity of the Community Facilities Districts (CFDs).

**Fiduciary Funds**

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

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

**F. Budgets and Budgetary Accounting**

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

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

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.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Encumbrances**

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

**H. Assets, Liabilities, and Equity**

**1. Cash and Cash Equivalents**

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

**2. Stores Inventories**

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

**3. Capital Assets**

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

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

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

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

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### H. Assets, Liabilities, and Equity (continued)

###### 4. Deferred Revenue

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

###### 5. Compensated Absences

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

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

###### 6. Long-Term Obligations

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

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

###### 7. Fund Balance Classifications

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

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

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

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**H. Assets, Liabilities, and Equity (continued)**

**7. Fund Balance Classifications (continued)**

**Committed:** Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The passage of a resolution must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

**Assigned:** Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Under the District's policy, the Board of Trustees delegates authority to assign fund balance amounts for a specific purpose to the Chief Business Official in the District.

**Unassigned:** Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. This classification

**8. Net Assets**

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

**I. Property Tax**

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

**J. Use of Estimates**

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

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2011*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. New GASB Pronouncements**

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

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

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

**NOTE 2 – CASH AND INVESTMENTS**

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

	<u>Rating</u>	<u>Governmental Activities/Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:			
Cash in County Treasury		\$ 46,832,518	\$ -
Deposits:			
Cash on hand and in banks		736,183	26,089
Cash in revolving fund		<u>60,945</u>	<u>-</u>
Total Deposits		<u>797,128</u>	<u>26,089</u>
Total Cash		<u>\$ 47,629,646</u>	<u>\$ 26,089</u>
Investments:			
Zion Bank:			
Fidelity Institutional Gov. Money Market	AAAm	<u>\$ 4,368,164</u>	

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

# ADELANTO SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2011

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### NOTE 2 – CASH AND INVESTMENTS (continued)

#### Pooled Funds

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

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

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

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, cash balances held in banks and revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, \$712,681 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

#### Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2011 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
Zion Bank:			
Fidelity Institutional Gov. Money Market	\$ 4,368,164	\$ 4,368,164	\$ -

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### Investments - Credit Risk

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

##### Investments - Concentration of Credit Risk

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

Zion Bank:	
Fidelity Institutional Gov. Money Market	100%

#### NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:				
Categorical aid programs	\$ 528,901	\$ -	\$ 363,191	\$ 892,092
State Government:				
Revenue limit	10,767,917	-	-	10,767,917
Lottery	549,746	-	-	549,746
Categorical aid programs	634,871	-	28,505	663,376
Other state resources	98,538	-	-	98,538
Local:				
Interest	17,437	67,857	5,127	90,421
Other local resources	60,998	-	55,827	116,825
Miscellaneous	380,892	-	12,408	393,300
Total	<u>\$ 13,039,300</u>	<u>\$ 67,857</u>	<u>\$ 465,058</u>	<u>\$ 13,572,215</u>

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2011*

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**NOTE 4 - INTERFUND ACTIVITIES**

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

**A. Due From/Due To Other Funds**

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

General Fund due to County School Facilities Fund for temporary loan (needed cash flow)	<u>\$ 4,000,000</u>
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**B. Interfund Transfers**

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

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

Capital Facilities Fund transfer to County School Facilities Fund for contribution amount	<u>\$ 1,450,399</u>
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**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2011*

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**NOTE 5 – FUND BALANCES**

**Minimum Fund Balance Policy**

Pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund. Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 10% of the District's general fund annual operating expenditures. If a fund balance drops below 10%, it shall be recovered at a rate of 1% minimally, each year.

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

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

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>				
Revolving cash	\$ 60,000	\$ -	\$ 945	\$ 60,945.00
Stores inventories	73,665	-	209,343	283,008
Prepaid expenditures	155,153	-	-	155,153
Total Nonspendable	<u>288,818</u>	<u>-</u>	<u>210,288</u>	<u>499,106</u>
<b>Restricted:</b>				
Categorical programs	3,061,603	-	-	3,061,603
Capital projects	-	36,767,461	2,956,198	39,723,659
Debt service	-	-	6,313,618	6,313,618
Total Restricted	<u>3,061,603</u>	<u>36,767,461</u>	<u>9,269,816</u>	<u>49,098,880</u>
<b>Assigned:</b>				
Deferred maintenance program	605,822	-	-	605,822
Food Services	-	-	1,070,214	1,070,214
Total Assigned	<u>605,822</u>	<u>-</u>	<u>1,070,214</u>	<u>1,676,036</u>
<b>Unassigned:</b>				
Reserve for economic uncertainties	1,648,084	-	-	1,648,084
Remaining unassigned balances	6,620,868	-	-	6,620,868
Total Unassigned	<u>8,268,952</u>	<u>-</u>	<u>-</u>	<u>8,268,952</u>
Total	<u>\$ 12,225,195</u>	<u>\$ 36,767,461</u>	<u>\$ 10,550,318</u>	<u>\$ 59,542,974</u>

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2011

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

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

	Balance, July 1, 2010	Additions	Decreases	Balance, June 30, 2011
Capital assets not being depreciated:				
Land	\$ 17,229,842	\$ -	\$ -	\$ 17,229,842
Construction in progress	28,382,066	16,748,584	-	45,130,650
Total capital assets not being depreciated	<u>45,611,908</u>	<u>16,748,584</u>	<u>-</u>	<u>62,360,492</u>
Capital assets being depreciated:				
Improvement of sites	3,619,744	98,958	-	3,718,702
Buildings	105,191,483	-	-	105,191,483
Furniture and equipment	7,813,365	530,125	-	8,343,490
Total capital assets being depreciated	<u>116,624,592</u>	<u>629,083</u>	<u>-</u>	<u>117,253,675</u>
Accumulated depreciation for:				
Improvement of sites	(2,319,032)	(383,118)	-	(2,702,150)
Buildings	(23,348,844)	(5,017,219)	-	(28,366,063)
Furniture and equipment	(6,379,534)	(876,259)	-	(7,255,793)
Total accumulated depreciation	<u>(32,047,410)</u>	<u>(6,276,596)</u>	<u>-</u>	<u>(38,324,006)</u>
Total capital assets being depreciated, net	<u>84,577,182</u>	<u>(5,647,513)</u>	<u>-</u>	<u>78,929,669</u>
Governmental activity capital assets, net	<u>\$ 130,189,090</u>	<u>\$ 11,101,071</u>	<u>\$ -</u>	<u>\$ 141,290,161</u>

**NOTE 7 – GENERAL LONG-TERM DEBT**

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

	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 13,329,851	\$ -	\$ 943,994	\$ 12,385,857	\$ 988,328
Accreted interest	14,147,862	1,587,703	970,219	14,765,346	1,120,935
Total - G.O. Bonds	<u>27,477,713</u>	<u>1,587,703</u>	<u>1,914,213</u>	<u>27,151,203</u>	<u>2,109,263</u>
Special Tax Bonds:					
CFD No.1	16,790,000	-	305,000	16,485,000	320,000
CFD No.2	3,500,000	-	15,000	3,485,000	25,000
Total - CFD Bonds	<u>20,290,000</u>	<u>-</u>	<u>320,000</u>	<u>19,970,000</u>	<u>345,000</u>
Certificates of Participation:					
Principal payments	9,495,000	-	-	9,495,000	65,000
Unamortized issuance discount	(280,563)	-	(10,587)	(269,976)	(10,587)
Total - COPs	<u>9,214,437</u>	<u>-</u>	<u>(10,587)</u>	<u>9,225,024</u>	<u>54,413</u>
Capital leases	177,370	-	83,910	93,460	93,460
Compensated absences	582,033	-	24,119	557,914	-
Early retirement incentives	998,584	489,881	632,443	856,022	347,307
Other postemployment benefits	837,262	591,758	-	1,429,020	-
Totals	<u>\$ 59,577,399</u>	<u>\$ 2,669,342</u>	<u>\$ 2,964,098</u>	<u>\$ 59,282,643</u>	<u>\$ 2,949,443</u>

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2011

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**A. General Obligation Bonds**

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

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

Below is a summary of bonds issued by the District.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 2,028,154	\$ -	\$ 177,839	\$ 1,850,315
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	3,338,354	-	306,893	3,031,461
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	1,863,721	-	335,000	1,528,721
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	6,099,622	-	124,262	5,975,360
				<u>\$ 21,995,645</u>	<u>\$ 13,329,851</u>	<u>\$ -</u>	<u>\$ 943,994</u>	<u>\$ 12,385,857</u>
Accreted Interest:								
				1993	\$ 2,532,997	\$ 235,084	\$ 262,161	\$ 2,505,920
				1994	4,144,920	509,785	587,320	4,067,385
				1996	1,368,707	152,195	-	1,520,902
				1997	6,101,238	690,639	120,738	6,671,139
				Total	<u>\$ 14,147,862</u>	<u>\$ 1,587,703</u>	<u>\$ 970,219</u>	<u>\$ 14,765,346</u>

The amounts required to amortize general obligation bonds payable at June 30, 2011 are:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 988,328	\$ 1,130,786	\$ 2,119,114
2012-13	813,875	1,513,969	2,327,844
2013-14	830,000	1,718,853	2,548,853
2014-15	851,224	1,939,735	2,790,959
2015-16	875,269	2,191,879	3,067,148
2016-21	5,336,169	14,864,999	20,201,168
2021-23	2,690,992	7,934,008	10,625,000
Total	<u>\$ 12,385,857</u>	<u>\$ 31,294,229</u>	<u>\$ 43,680,086</u>

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

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

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

Fiscal Year	Principal	Interest	Total
2011-12	\$ 65,000	\$ 406,384	\$ 471,384
2012-13	105,000	402,984	507,984
2013-14	120,000	398,484	518,484
2014-15	135,000	393,384	528,384
2015-16	150,000	387,778	537,778
2016-21	1,030,000	1,829,759	2,859,759
2021-26	1,575,000	1,559,921	3,134,921
2026-31	2,295,000	1,144,461	3,439,461
2031-36	3,240,000	543,594	3,783,594
2036-37	780,000	17,062	797,062
Total	<u>\$ 9,495,000</u>	<u>\$ 7,083,811</u>	<u>\$ 16,578,811</u>

**C. Capital Leases**

The District leases certain 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
2011-12	\$ 94,109
Total	94,109
Less Amount Representing Interest	<u>(649)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 93,460</u>

The District will receive no sublease rental revenues and does not pay any contingent rentals for the equipment.

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 7 – GENERAL LONG-TERM DEBT (continued)

##### D. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2011 for these obligations are shown below.

<u>Future Years</u>	<u>SERP</u>
2011-12	\$ 347,307
2012-13	261,586
2013-14	152,957
2014-15	94,172
	<u>\$ 856,022</u>

##### E. Community Facilities District Bonds

###### CFD No. 1

On June 7, 2006, the District issued 2006 Improvement Area Special Tax Bonds in the amount of \$17,360,000. The bonds are being issued under the Mello-Roos Community Facilities Act of 1982 and a Fiscal Agent Agreement, dated as of May 1, 2006, by and between the Community Facilities District No. 1 of the Adelanto Elementary School District and Zions First National Bank, as fiscal agent. The Board of Education of the Adelanto Elementary School District acting as legislative body of the Community Facilities District, and the eligible landowner voters in Improvement Area A of the Community Facilities District, have authorized the issuance of bonds in an aggregate principal amount not to exceed \$27,000,000. The Bonds are the only series of bonds to be issued under this authorization.

The Bonds are payable from proceeds of Net Special Taxes levied on property within Improvement Area A of the Community Facilities District according to the second amended rate and method of apportionment of special tax approved by the Board and the eligible landowner voters in Improvement Area A of the CFD. The Bonds are secured by a first pledge of all revenues derived from the Net Special Taxes and the moneys deposited in certain funds held by the Fiscal Agent under the Fiscal Agent Agreement.

The Bonds being issued to: 1) finance the acquisition and construction of certain school facilities and improvements to be owned and operated by the School District of benefit to the property in Improvement Area A of the CFD, 2) finance the acquisition and construction of certain school facilities and improvements to be owned and operated by the High School District of benefit to the property in Improvement Area A of the CFD, 3) finance certain roadway improvements to be owned and operated by the City, 4) finance sewer facilities included in Victorville Sanitary District's sewer capacity and connection fee programs with respect to the property in Improvement Area A of the CFD, 5) fund a reserve fund for the bonds, 6) fund capitalized interest on the bonds through September 1, 2007, 7) pay certain administrative expenses of the CFD, and 8) pay the costs of issuing the bonds.

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2011*

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**E. Community Facilities District Bonds (continued)**

**CFD No. 1 (continued)**

At June 30, 2011, the outstanding balance on the bonds was \$16,485,000. The annual requirements to amortize the outstanding bonds are shown below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 320,000	\$ 858,747	\$ 1,178,747
2012-13	335,000	843,140	1,178,140
2013-14	350,000	826,542	1,176,542
2014-15	365,000	808,913	1,173,913
2015-16	385,000	790,098	1,175,098
2016-21	2,230,000	3,629,867	5,859,867
2021-26	2,865,000	2,970,628	5,835,628
2026-31	3,705,000	2,104,931	5,809,931
2031-36	4,810,000	970,840	5,780,840
2036-37	1,120,000	29,995	1,149,995
Total	<u>\$ 16,485,000</u>	<u>\$ 13,833,701</u>	<u>\$ 30,318,701</u>

**CFD No. 2**

On February 1, 2006, the District issued 2006 Special Tax Bonds in the amount of \$3,520,000. The bonds are being issued under the Mello-Roos Community Facilities Act of 1982 and a Fiscal Agent Agreement, dated as of January 1, 2006, by and between the Community Facilities District No. 2 of the Adelanto Elementary School District and Zions First National Bank, as fiscal agent. The Board of Education of the Adelanto Elementary School District, acting as legislative body of the CFD, and the eligible landowner voters of the CFD, have authorized the issuance of bonds in an aggregate principal amount not to exceed \$6,000,000. The bonds are the only series of bonds to be issued under this authorization.

The Bonds are payable from proceeds of Net Special Taxes levied on property within the CFD according to the rate and method of apportionment of special tax approved by the Board and the eligible landowner voters in the CFD. The Bonds are secured by a first pledge of all revenues derived from the Net Special Taxes and the moneys deposited in certain funds held by the Fiscal Agent under the Fiscal Agent Agreement.

The Bonds are being issued to: 1) finance the acquisition and construction of certain school facilities and improvements to be owned and operated by the School District of benefit to the property in the CFD, 2) finance the acquisition and construction of certain school facilities and improvements to be owned and operated by the High School District of benefit to the property in the CFD, 3) fund a reserve fund for the bonds, 4) fund capitalized interest on the bonds through March 1, 2007, 5) pay certain administrative expenses of the CFD, and 6) pay the costs of issuing the bonds.

**ADELANTO SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2011

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**E. Community Facilities District Bonds (continued)**

**CFD No. 2 (continued)**

At June 30, 2011, the outstanding balance on the bonds was \$3,485,000. The annual requirements to amortize the outstanding bonds are shown below:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 25,000	\$ 178,329	\$ 203,329
2012-13	25,000	177,244	202,244
2013-14	35,000	175,910	210,910
2014-15	35,000	174,300	209,300
2015-16	45,000	172,397	217,397
2016-21	325,000	820,506	1,145,506
2021-26	550,000	711,283	1,261,283
2026-31	855,000	532,090	1,387,090
2031-36	1,275,000	257,010	1,532,010
2036-37	315,000	8,190	323,190
Total	<u>\$ 3,485,000</u>	<u>\$ 3,207,259</u>	<u>\$ 6,692,259</u>

**NOTE 8 – JOINT VENTURES**

The Adelanto School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed financial information for the year ended June 30, 2011 is as follows:

	SCSRM June 30, 2011 (Audited Draft)	SCSEBA June 30, 2010 (Audited)
Total Assets	\$ 55,870,381	\$ 30,209,651
Total Liabilities	<u>13,325,215</u>	<u>10,527,131</u>
Total Net Assets	<u>\$ 42,545,166</u>	<u>\$ 19,682,520</u>
Revenues	\$ 28,640,048	\$ 125,669,429
Expenses	28,883,392	127,518,662
Change in Net Assets	<u>\$ (243,344)</u>	<u>\$ (1,849,233)</u>

## **ADELANTO SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2011*

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#### **NOTE 9 – RISK MANAGEMENT**

##### **Property and Liability**

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

##### **Workers' Compensation**

For fiscal year 2010-11, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

##### **Employee Medical Benefits**

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

#### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

##### **A. State and Federal Allowances, Awards, and Grants**

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

##### **B. Construction Commitments**

At June 30, 2011, the District had commitments with respect to unfinished capital projects of \$21.7 million to be paid from a combination of State and local funds.

#### **NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS**

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

##### **Plan Description and Provisions**

##### **Public Employees' Retirement System (PERS)**

##### **Plan Description**

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

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

##### Public Employees' Retirement System (PERS) (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 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute.

The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2010-11	\$ 959,469	100%
2009-10	\$ 976,414	100%
2008-09	\$ 1,003,101	100%

##### State Teachers' Retirement System (STRS)

###### Plan Description

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

###### Funding Policy

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

	Contribution	Percent of Required Contribution
2010-11	\$ 1,947,896	100%
2009-10	\$ 2,155,618	100%
2008-09	\$ 2,327,986	100%

##### On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$1.0 million to STRS (4.267% of salaries subject to STRS in 2010-11).

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

#### Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	37
Active plan members*	511
Total	<u>548</u>
Number of participating employers	One

*\*As of November 1, 2011 actuarial valuation*

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

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

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. The District established the self insurance fund to set aside funds of this liability. For fiscal year 2010-11, the District contributed \$284,996.

#### Annual OPEB Cost and Net OPEB Obligation

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

## ADELANTO SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2011

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#### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Annual OPEB Cost and Net OPEB Obligation (continued)

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

	<u>Amount</u>
Annual required contribution (ARC)	\$ 871,976
Interest on net OPEB obligation	41,863
Adjustment to ARC	<u>(37,085)</u>
Annual OPEB cost	876,754
Contributions made:	<u>(284,996)</u>
Increase in net OPEB obligation	591,758
Net OPEB obligation - July 1, 2010	<u>837,262</u>
Net OPEB obligation - June 30, 2011	<u><u>\$ 1,429,020</u></u>

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

Year Ended <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage <u>Contributed</u>	Net OPEB <u>Obligation</u>
2009	\$ 623,328	23.2%	\$ 478,576
2010	\$ 626,059	42.7%	\$ 837,262
2011	\$ 876,754	33%	\$ 1,429,020

##### Funded Status and Funding Progress - OPEB Plans

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

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

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Actuarial Methods and Assumptions**

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

Additional information as of the latest actuarial valuation follows:

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

**NOTE 13 - ADJUSTMENTS FOR RESTATEMENTS**

The beginning fund balances of the General Fund and the Non-Major Governmental Funds have been restated on the Statement of Revenues, Expenditures, and Changes in Fund Balances by \$1,044,020 to include the beginning fund balances of the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay, which must be reported within the General Fund in accordance with GASB No. 54. In addition, the beginning fund balance of the Self-Insurance Fund of \$1,397 is now reported in the General Fund because it no longer operates as a proprietary fund.

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***Required Supplementary Information***

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

	<b>Budgeted Amounts</b>		<b>Actual *</b> <b>(Budgetary Basis)</b>	<b>Variance with</b> <b>Final Budget -</b> <b>Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Revenue Limit Sources	\$ 37,889,427	\$ 39,885,433	\$ 39,819,557	\$ (65,876)
Federal	2,975,256	4,681,019	3,882,291	(798,728)
Other State	6,102,134	6,897,808	7,091,716	193,908
Other Local	2,835,064	1,895,811	1,679,824	(215,987)
<b>Total Revenues</b>	<b>49,801,881</b>	<b>53,360,071</b>	<b>52,473,388</b>	<b>(886,683)</b>
<b>Expenditures</b>				
Certificated Salaries	24,892,253	24,334,848	24,178,439	156,409
Classified Salaries	9,131,989	8,940,901	8,736,888	204,013
Employee Benefits	10,425,574	10,442,533	10,137,252	305,281
Books and Supplies	2,135,239	3,098,367	2,069,660	1,028,707
Services and Other Operating Expenditures	6,328,212	6,348,004	5,619,042	728,962
Capital Outlay	-	489,959	20,008	469,951
Direct Support/Indirect Costs	(157,000)	-	-	-
Other Outgo	118,321	95,108	95,106	2
<b>Total Expenditures</b>	<b>52,874,588</b>	<b>53,749,720</b>	<b>50,856,395</b>	<b>2,893,325</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>(3,072,707)</b>	<b>(389,649)</b>	<b>1,616,993</b>	<b>2,006,642</b>
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	-	200,000	-	(200,000)
Interfund Transfers Out	-	(221,040)	-	221,040
<b>Total Other Financing Sources and Uses</b>	<b>-</b>	<b>(21,040)</b>	<b>-</b>	<b>21,040</b>
<b>Net Change in Fund Balances</b>	<b>(3,072,707)</b>	<b>(410,689)</b>	<b>1,616,993</b>	<b>2,027,682</b>
Fund Balances, July 1, 2010	10,000,459	10,000,459	10,000,459	-
<b>Fund Balances, June 30, 2011</b>	<b>\$ 6,927,752</b>	<b>\$ 9,589,770</b>	<b>\$ 11,617,452</b>	<b>\$ 2,027,682</b>

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

*See accompanying note to required supplementary information.*

**ADELANTO SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2011*

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

*See accompanying note to required supplementary information.*

## **ADELANTO SCHOOL DISTRICT**

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

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#### **NOTE 1 - PURPOSE OF SCHEDULES**

##### **Budgetary Comparison Schedule**

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

##### **Schedule of Funding Progress**

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

#### **NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2011, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

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***Supplementary Information***

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**ADELANTO SCHOOL DISTRICT**

*Local Educational Agency Organization Structure*

*June 30, 2011*

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The Adelanto School District is an elementary school district established in 1873 and is comprised of an area of approximately 330 square miles located in San Bernardino County, encompassing a portion of the City of Adelanto and surrounding areas. There were no changes in the boundaries of the District during the current year. During the fiscal year, the District operated eight elementary schools (K-5), five K-8 schools, and two middle schools (6-8).

**GOVERNING BOARD**

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<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Carlos Mendoza	President	November, 2012
Elaine Gonzales <sup>1</sup>	Clerk	November, 2014
Holly Eckes	Member	November, 2012
Christine Turner	Member	November, 2014
Debra S. Jones	Member	November, 2012

**DISTRICT ADMINISTRATORS**

Darin Brawley,  
*Superintendent*

Jose Dominguez,  
*Assistant Superintendent, Business Services*

Ross Swearingen,  
*Assistant Superintendent, Human Resources*

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<sup>1</sup> Resigned effective June 30, 2011. The current Board Clerk is Debra Jones. The vacant board position was filled by Jermaine Wright.

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

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	Second Period Report (Certificate No. 233ABCC7)	Annual Report (Certificate No. 92AAB110)
<b>Elementary:</b>		
Kindergarten	791	799
Grades 1 through 3, regular classes	2,508	2,514
Grades 4 through 6, regular classes	2,559	2,566
Grades 7 and 8, regular classes	1,603	1,606
Home and hospital	16	15
Opportunity school	31	33
Special education	281	285
Extended year special education	<u>2</u>	<u>2</u>
Total Average Daily Attendance	<u><u>7,791</u></u>	<u><u>7,820</u></u>

*See accompanying note to supplementary information.*

**ADELANTO SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2011*

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Grade Level	1982-83 Minutes		1986-87 Minutes		2010-2011 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	31,500	30,625	36,000	35,000	35,000	175	Complied
Grade 1	46,375	45,087	50,400	49,000	49,030	175	Complied
Grade 2	46,375	45,087	50,400	49,000	49,030	175	Complied
Grade 3	46,375	45,087	50,400	49,000	49,030	175	Complied
Grade 4	52,500	51,042	54,000	52,500	52,530	175	Complied
Grade 5	52,500	51,042	54,000	52,500	52,530	175	Complied
Grade 6	52,500	51,042	54,000	52,500	52,530	175	Complied
Grade 7	52,500	51,042	54,000	52,500	52,501	175	Complied
Grade 8	52,500	51,042	54,000	52,500	52,501	175	Complied

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

*See accompanying note to supplementary information.*

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

General Fund	(Budget) 2012 <sup>2</sup>	2011 <sup>3</sup>	2010	2009
Revenues and other financing sources	\$ 51,676,053	\$ 52,473,387	\$ 51,536,243	\$ 66,187,592
Expenditures	53,541,930	50,856,395	54,968,466	59,691,714
Other uses and transfers out	-	-	-	395,808
Total outgo	53,541,930	50,856,395	54,968,466	60,087,522
Change in fund balance (deficit)	(1,865,877)	1,616,992	(3,432,223)	6,100,070
Ending fund balance	\$ 9,751,574	\$ 11,617,451	\$ 10,000,459	\$ 13,432,682
Available reserves <sup>1</sup>	\$ 3,946,944	\$ 8,268,952	\$ 1,649,492	\$ 7,233,669
Available reserves as a percentage of total outgo	7.4%	16.3%	3.0%	12.0%
Total long-term debt	\$ 57,993,574	\$ 59,282,643	\$ 59,577,399	\$ 60,248,211
Average daily attendance at P-2	7,861	7,791	7,863	7,842

The General Fund balance has decreased by \$1,815,231 over the past two years. The fiscal year 2011-12 adopted budget projects a decrease of \$1,865,877. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, and is anticipating an operating deficit during the 2011-12 fiscal year. Long-term debt has decreased by \$965,568 over the past two years.

Average daily attendance has decreased by 51 over the past two years. An increase of 70 ADA is anticipated during fiscal year 2011-12.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Revised Final Budget September 2011

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

*See accompanying note to supplementary information.*

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Needy	10.553	13390	\$ 663,456
National School Lunch Program	10.555	13391	2,767,028
Cafeteria Fresh Fruit & Vegetable	10.582	14968	92,038
USDA- Donated Foods	10.555	N/A	219,388
Total U.S. Department of Agriculture			3,741,910
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	833,944
Title I, Part A, Program Improvement District Intervention	84.010	14581	74,689
Title II, Part A, Teacher Quality Local	84.367	14341	184,015
Title II, Part A, Administrator Training	84.367	14344	1,962
Title II, Part D, Enhancing Education Through Technology	84.318	14334	11,687
Title III, Limited English Proficiency	84.365	14346	161,408
Title III, Immigrant Education Program	84.365	15146	10,290
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	14378	5,471
Title X, McKinney-Vento Homeless Assistance Grant	84.387	15007	5,000
ARRA, State Fiscal Stabilization Funds	84.394	24997	651,899
Education Jobs Fund	84.410	25152	366,039
Individuals with Disabilities Education Act (IDEA):			
Local Assistance Entitlement	84.027	13379	1,521,976
ARRA Local Assistance Entitlement	84.391	15003	56,192
Total U.S. Department of Education			3,884,572
U.S. Department of Health & Human Services:			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	55,897
Medi-Cal Administrative Activities	93.778	10060	5,250
Total U.S. Department of Health & Human Services			61,147
Total Expenditures of Federal Awards			\$ 7,687,629

*See accompanying note to supplementary information.*

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

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	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Self Insurance Fund
June 30, 2011, annual financial and budget report fund balance	\$ 11,617,451	\$ 605,822	\$ 447	\$ 1,475
Adjustments and reclassifications:				
Increase (decrease) in total fund balances:				
Fund balance transfer (GASB 54)	<u>607,744</u>	<u>(605,822)</u>	<u>(447)</u>	<u>(1,475)</u>
Net adjustments and reclassifications	<u>607,744</u>	<u>(605,822)</u>	<u>(447)</u>	<u>(1,475)</u>
June 30, 2011, audited financial statement fund balance	<u><u>\$ 12,225,195</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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*See accompanying note to supplementary information.*

**ADELANTO SCHOOL DISTRICT**  
*Schedule of Charter Schools*  
*For the Fiscal Year Ended June 30, 2011*

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

*See accompanying note to supplementary information.*

## **ADELANTO SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2011*

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### **NOTE 1 – PURPOSE OF SCHEDULES**

#### **Schedule of Average Daily Attendance (ADA)**

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

#### **Schedule of Instructional Time**

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

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

#### **Schedule of Financial Trends and Analysis**

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

#### **Schedule of Expenditures of Federal Awards**

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

#### **Subrecipients**

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

#### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

#### **Schedule of Charter Schools**

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

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***Other Independent Auditors' Reports***

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

Board of Trustees  
Adelanto School District  
Adelanto, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District as of and for the year ended June 30, 2011, which collectively comprise Adelanto School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

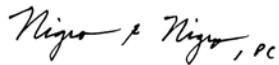
### Compliance and Other Matters

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

We noted certain matters that we reported to management of Adelanto School District in a separate letter dated December 15, 2011.

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

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



December 15, 2011



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

Board of Trustees  
Adelanto School District  
Adelanto, California

Compliance

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

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

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

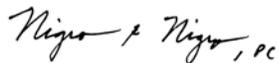
### Internal Control Over Compliance

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

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

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

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



December 15, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto School District
Adelanto, California

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

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

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

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

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

In our opinion, Adelanto School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2011.

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

*Nieto & Nieto, PC*

December 15, 2011

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***Findings and Questioned Costs***

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

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

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

***Federal Awards***

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.394</u>	<u>ARRA State Fiscal Stabilization Funds</u>
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

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

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

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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

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

**Finding 2011-1: Fixed Assets (20000)**

**Criteria:** Fixed assets represent one of the largest investments of the District. Control and accountability are of significant concern. Sound internal controls and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District.

**Condition:** The District did not track and reconcile 2010-11 projects to general ledger expenditures and update the capital asset schedules for the audit. In addition, the District did not update the fixed assets schedule, and additions to capital expenditures could not be reconciled to the general ledger. We were able to determine that the expenditures were for proper capital costs, but not the nature of the project nor whether the asset(s) were depreciable in the current year or construction in progress. As a result, there may be material misstatements in the amounts reported for capital assets and depreciation at June 30, 2011.

**Recommendation:** The District needs to develop controls to closely monitor the purchase of fixed assets and proper identification of the expense. All construction and modernization costs, including those made from component units need to be reconciled to the general ledger as part of the year-end closing process. These amounts should then be added to the fixed assets system kept by the County. Furthermore, we recommend that the District consider contracting with an outside firm to obtain a full detailed capital asset inventory as a starting point, then utilize an accounting department staff to keep the inventory current.

**District's Response:** The Adelanto School District recognizes that we need to correct this finding. We have contacted several other Districts for assistance and will be drafting a request for a quote for an outside source. We will be working with other Districts to create a process that accurately captures all capital assets.

**ADELANTO SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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

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

**ADELANTO SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011*

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**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 state award findings or questioned costs in 2010-11.*

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

<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2010-1: Fixed Assets</i>	<p>Fixed assets represent one of the largest investments of the District. Control and accountability are of significant concern. Sound internal controls and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District</p> <p>The District did not update the fixed assets schedule, and a difference of \$0.5 million in capital expenditures could not be reconciled. We were able to determine that the expenditures were for proper capital costs, but not the nature of the project nor whether the asset(s) were depreciable in the current year or construction in progress. The District did not track and reconcile 2009-10 projects to general ledger expenditures and update the capital asset schedules for the audit.</p>	20000	The District needs to develop controls to closely monitor the purchase of fixed assets and proper identification of the expense. All construction and modernization costs, including those made from component units need to be reconciled to the general ledger as part of the year-end closing process. These amounts should then be added to the fixed assets system kept by the County.	Not Implemented. See Finding 2011-1.
<i>Finding 2010-2: School-wide Plans</i>	<p>The District is required to complete a school-wide plan which contains certain required components, one of which is a transition plan for assisting preschool children in the successful transition to the school-wide program. An additional required component of the school-wide plan is a strategy to increase parental involvement.</p> <p>The District's plans lacked the preschool transition information as well as the strategy to increase parental involvement.</p>	50000	The District must begin including preschool transition information in its school-wide plans as well as the strategy to increase parental involvement.	Implemented.

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

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2010-3: Procurement, Suspension and Debarment</i>	<p>Governmental agencies wanting to enter into a contract with vendors in excess of \$25,000 must first determine whether vendors are excluded from conducting business with governmental agencies.</p> <p>The District lacks procedures to verify whether vendors are included on the Excluded Parties Listing Service (EPLS). We found no instances of non-compliance.</p>	50000	The District should ensure that it avoids contracting with vendors excluded from doing business with governmental agencies by reviewing the EPLS before signing the contract.	Implemented.
<i>Finding 2010-4: Cash Management</i>	<p>A-102, the Common Rule, states that a non-federal entity may keep up to \$100 of the interest earned and is required to return the excess to the federal government on a quarterly basis.</p> <p>The District received federal funds throughout the 2009-10 fiscal year. These funds are to be spent on programs run during the fiscal year. Interest earned in excess of the \$100 threshold must be remitted to the State on a quarterly basis. The funds were not remitted to the State until the end of the fiscal year.</p>	50000	The District should closely monitor interest earned on all federal programs and properly return all interest earned with federal funds in excess of the minimum allowed on a quarterly basis.	Implemented.



To the Board of Trustees of  
Adelanto School District  
Adelanto, California

Our audit of the financial statements of Adelanto School District, as of December 15, 2011 and for the year ended June 30, 2011 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

As defined by professional standards, a 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 responsibilities, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

During the course of performing our procedures, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2011 on the financial statements of Adelanto School District.

To the Board of Trustees of  
Adelanto School District

### **Columbia Middle School ASB**

**Observation:** We noted that the ASB bookkeeper is a signer on the bank account. This represents a lack of segregation of duties. Good internal controls include segregating duties according to employees' duties so that one person is not handling a transaction from beginning to end. This is a critical part of a system of checks and balances. Those who record the transaction should be separate from those who authorize the transaction.

**Recommendation:** We recommend that the bookkeeper be removed as a signer.

**Observation:** In our sample of five bank deposits, two could not be traced to sub-receipts and could not be reconciled to the deposit.

**Recommendation:** All cash receipts should be supported with documentation that indicates the source of the funds. This creates an audit trail, which is a critical component of internal controls.

**Observation:** Our sample of five bank deposits found two that were not deposited in a timely manner with receipts lapsing up to three weeks before depositing the funds.

**Recommendation:** We recommend that the ASB make deposits at least once a week and more frequently as needed.

### **Mesa Linda Middle School ASB**

**Observation:** In our sample of seven cash disbursements, two were approved by all required signors after the expenditures were incurred.

**Recommendation:** We recommend that all expenditure be approved in advance by all required signors prior to invoice date.

### **Cash Disbursements**

**Observation:** During our testing of cash disbursements, we noted nine of thirty-seven disbursements where the expenditure was incurred prior to approval. Obtaining an approved purchase order prior to incurring each expenditure is an important internal control which verifies that purchases are approved and within set budgets.

**Recommendation:** A purchase order should be obtained for all expenditures prior to incurrence.

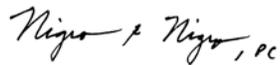
To the Board of Trustees of  
Adelanto School District

## **JOURNAL ENTRIES**

**Observation:** Through inquiry and review of the District's journal entry processes, we noted that journal entries prepared by the Fiscal Director are not reviewed prior to being posted to the general ledger. Good internal controls include monitoring and review of all transactions posted to the general ledger by someone other than the employee creating the transaction.

**Recommendation:** All journal entries should be reviewed and approved by someone other than the employee that creates the journal entry in order to provide better segregation of duties.

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



December 15, 2011