



**IRVINE
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

IRVINE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2011

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds - Statement of Net Assets	18
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Proprietary Funds - Statement of Cash Flows	20
Fiduciary Funds - Statement of Net Assets	21
Notes to Financial Statements	22

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	52
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	53

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	55
Summary of the Drug Free Support Program Grants	58
Local Education Agency Organization Structure	59
Schedule of Average Daily Attendance	60
Schedule of Instructional Time	61
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	62
Schedule of Financial Trends and Analysis	63
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	65
Note to Supplementary Information	66

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69
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	71
Report on State Compliance	73

IRVINE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	76
Financial Statement Findings	77
Federal Awards Findings and Questioned Costs	80
State Awards Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	83
Management Letter	88

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Irvine Unified School District
Irvine, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison and other postemployment information on pages 52 and 53 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vallermek, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 1, 2011



This section of the Irvine Unified School District's (the District) 2010-2011 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011, with comparative information for June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Irvine Unified School District and its component units using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Governmental Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Irvine Unified School District.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$832.1 million for the fiscal year ended June 30, 2011. Of this amount, \$42.8 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2011	2010
ASSETS		
Current and other assets	\$ 195.1	\$ 188.8
Capital assets	684.7	654.6
Total Assets	879.8	843.4
LIABILITIES		
Current liabilities	32.3	23.6
Long-term obligations	15.4	15.9
Total Liabilities	47.7	39.5
NET ASSETS		
Invested in capital assets, net of related debt	682.8	652.5
Restricted	106.5	115.8
Unrestricted	42.8	35.6
Total Net Assets	\$ 832.1	\$ 803.9

The \$42.8 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our noncapital liabilities (compensated absences as an example), we would have \$42.8 million left. We will need to closely monitor our expenditures in the future and adhere strictly to the budget to maintain these unrestricted net assets.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 5.5	\$ 5.4
Operating grants and contributions	47.6	47.6
Capital grants and contributions	31.5	3.0
General revenues:		
Federal and State aid not restricted	11.9	15.8
Property taxes	157.4	165.6
Other general revenues	13.7	188.2
Total Revenues	267.6	425.6
Expenses		
Instruction-related	171.3	180.4
Student support services	23.8	23.9
Administration	8.0	8.4
Maintenance and operations	24.4	25.0
Other	11.8	209.5
Total Expenses	239.3	447.2
Change in Net Assets	\$ 28.3	\$ (21.6)

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$239.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$157.4 million.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

In Table 3, we have presented the net cost of each of the District's largest functions - instruction, student support services, administration, maintenance and operations, and other, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Net Cost of Services	
	2011	2010
Instruction-related	\$ 110.6	\$ 148.0
Student support services	12.7	12.3
Administration	6.6	7.3
Maintenance and operations	24.2	24.6
Other	0.6	199.0
Total	\$ 154.7	\$ 391.2

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$152.4 million, which is a decrease of \$1.1 million from last year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 52).

Budgeted expenditures increased by \$24,484,594 due to the appropriation of prior year fund balances, the receipt of one-time Federal money under the American Recovery and Reinvestment Act, as well as budgetary increases for gift allocations. These amounts were unknown at the time the budget was adopted and the allocations were made during the fiscal year.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$830.4 million (gross) in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 4

(Net of accumulated depreciation)

(Amounts in millions)

	Governmental Activities	
	2011	2010
Land and construction in process	\$ 417.0	\$ 383.7
Buildings and improvements	262.9	265.8
Furniture and equipment	4.8	5.1
Total	\$ 684.7	\$ 654.6

Long-Term Obligations

At the end of this year, the District had \$17.1 million in long-term obligations outstanding versus \$17.6 million last year; a decrease of three percent.

Table 5

(Amounts in millions)

	Governmental Activities	
	2011	2010
Notes payable	\$ 1.9	\$ 2.2
Accumulated vacation - net	1.1	1.1
Supplementary Retirement Plan	4.5	5.8
Net OPEB obligation	9.6	8.5
Total	\$ 17.1	\$ 17.6

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-11 ARE NOTED BELOW:

- Restoration of four furlough days for all employee groups.
- Successful labor negotiations with bargaining groups in response to budget crisis, in addition District increased health benefit contribution from \$8,433 to \$9,622.
- Special Education contribution decreased slightly.
- Ending fund balances were used to negate 2010/2011 budget shortfall as planned.
- Completion of the round 3 modernization projects, except Deerfield ES and Woodbridge HS.
- Majority of the Jeffrey Trail MS construction was completed.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2011-12 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. One percent increase for property tax revenues.
2. Remaining ARRA funds have been included for one-time expenditures to save jobs, cover the prior year increase to the health benefit contribution and augment program.
3. Projected ADA growth of 400 students is anticipated.
4. 2.24 percent revenue limit COLA.
5. On-going 19.754 percent revenue limit deficit.
6. Local revenues/gift funds remain unbudgeted until received.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Kindergarten	33:1	1,667
Grades one through three	32:1	6,321
Grades four through six	33.5:1	6,424
Grades seven through twelve	32:1	12,950

The new items specifically addressed in the budget are:

1. No salary increases are projected for 2011-12.
2. No furlough days have been included for all employee groups.
3. No increases in health benefit contributions are projected in 2011-12.
4. Additional designated reserves have been included for \$349 per ADA reduction (\$9.4 million), Basic Aid "Fair Share" of \$5.7 million, and \$3.5 million in reserves to deal with the unforeseen consequences resulting from the ACLU lawsuit.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Fiscal Services, at Irvine Unified School District, 5050 Barranca Parkway, Irvine, California, 92604, or e-mail at slopez@iusd.org.

IRVINE UNIFIED SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 146,924,132	\$ 93,137	\$ 25,057,837	\$ 31,497,413
Instruction-related activities:				
Supervision of instruction	6,762,822	6,351	3,828,667	-
Instructional library, media, and technology	3,681,814	1,325	89,283	-
School site administration	13,902,612	1,736	133,679	-
Pupil services:				
Home-to-school transportation	3,741,625	291,730	878,508	-
Food services	5,248,537	3,512,269	1,348,495	-
All other pupil services	14,834,966	6,524	5,119,112	-
General administration:				
Data processing	2,183,927	-	-	-
All other general administration	5,789,084	171,143	1,149,709	-
Plant services	24,429,079	11,270	213,306	-
Ancillary services	2,072,195	456,315	225,894	-
Community services	580,837	-	-	-
Enterprise services	12,248	-	-	-
Interest on long-term obligations	165,681	-	-	-
Other outgo	8,969,042	927,714	9,580,104	-
Total Governmental Activities	\$ 239,298,601	\$ 5,479,514	\$ 47,624,594	\$ 31,497,413

General revenues and subventions:

- Property taxes, levied for general purposes
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Assets

- Net Assets - Beginning
- Net Assets - Ending

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

Net (Expenses)	
Revenues and	
Changes in Net Assets	
<hr/>	
Governmental	
Activities	
<hr/>	
\$	(90,275,745)
	(2,927,804)
	(3,591,206)
	(13,767,197)
	(2,571,387)
	(387,773)
	(9,709,330)
	(2,183,927)
	(4,468,232)
	(24,204,503)
	(1,389,986)
	(580,837)
	(12,248)
	(165,681)
	<u>1,538,776</u>
	<u>(154,697,080)</u>
	145,742,033
	11,653,935
	11,894,652
	297,528
	<u>13,383,408</u>
	<u>182,971,556</u>
	28,274,476
	<u>803,880,578</u>
\$	<u><u>832,155,054</u></u>

IRVINE UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2011

	General Fund	County School Facilities Fund
ASSETS		
Deposits and investments	\$ 47,697,326	\$ 44,091,387
Receivables	15,318,024	1,731,996
Due from other funds	937,793	-
Prepaid expenditures	13,470	-
Stores inventories	288,937	-
Other current assets	88,396	-
Total Assets	\$ 64,343,946	\$ 45,823,383
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 9,126,877	\$ 3,575,613
Due to other funds	-	91,785
Deferred revenue	3,563,805	-
Total Liabilities	12,690,682	3,667,398
FUND BALANCES		
Nonspendable	452,407	-
Restricted	5,813,327	42,155,985
Committed	-	-
Assigned	38,887,530	-
Unassigned	6,500,000	-
Total Fund Balances	51,653,264	42,155,985
Total Liabilities and Fund Balances	\$ 64,343,946	\$ 45,823,383

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

CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 47,368,372	\$ 14,431,425	\$ 153,588,510
2,214,115	824,854	20,088,989
-	-	937,793
-	-	13,470
-	116,925	405,862
-	-	88,396
<u>\$ 49,582,487</u>	<u>\$ 15,373,204</u>	<u>\$ 175,123,020</u>

\$ 3,496,857	\$ 1,703,125	\$ 17,902,472
913	844,824	937,522
-	259,033	3,822,838
<u>3,497,770</u>	<u>2,806,982</u>	<u>22,662,832</u>

-	116,925	569,332
46,084,717	12,335,210	106,389,239
-	114,087	114,087
-	-	38,887,530
-	-	6,500,000
<u>46,084,717</u>	<u>12,566,222</u>	<u>152,460,188</u>
<u>\$ 49,582,487</u>	<u>\$ 15,373,204</u>	<u>\$ 175,123,020</u>

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Total Fund Balance - Governmental Funds		\$ 152,460,188
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 830,394,820	
Accumulated depreciation is	<u>(145,662,751)</u>	
Total Capital Assets		684,732,069
An internal service fund is used by the District's management to charge the costs of the workers' compensation and health care insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		
Internal service fund net assets are:		12,040,682
Long-term obligations at year-end consist of:		
Notes payable	1,878,550	
Compensated absences	1,072,593	
Supplementary Retirement Plan	4,534,339	
Net OPEB obligation	<u>9,592,403</u>	
Total Long-Term Obligations		<u>(17,077,885)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 832,155,054</u></u>

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

IRVINE UNIFIED SCHOOL DISTRICT

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

	General Fund	County School Facilities Fund
REVENUES		
Revenue limit sources	\$ 145,315,980	\$ -
Federal sources	16,552,433	-
Other State sources	35,427,781	31,276,038
Other local sources	20,005,878	221,375
Total Revenues	<u>217,302,072</u>	<u>31,497,413</u>
EXPENDITURES		
Current		
Instruction	135,659,526	-
Instruction-related activities:		
Supervision of instruction	6,549,466	-
Instructional library, media, and technology	3,662,172	-
School site administration	13,689,515	-
Pupil services:		
Home-to-school transportation	3,734,403	-
Food services	46,186	-
All other pupil services	14,704,973	-
General administration:		
Data processing	2,168,619	-
All other general administration	5,073,434	-
Plant services	21,493,790	-
Facility acquisition and construction	333,382	35,173,305
Ancillary services	2,069,163	-
Community services	579,560	-
Other outgo	3,373,584	-
Enterprise services	10,161	-
Debt service		
Principal	267,401	-
Interest and other	91,074	74,607
Total Expenditures	<u>213,506,409</u>	<u>35,247,912</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,795,663</u>	<u>(3,750,499)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	3,420,153	23,056,620
Other sources	127,073	526,918
Transfers out	(1,487,285)	-
Other uses	-	-
Net Financing Sources (Uses)	<u>2,059,941</u>	<u>23,583,538</u>
NET CHANGE IN FUND BALANCES	5,855,604	19,833,039
Fund Balances - Beginning	45,797,660	22,322,946
Fund Balances - Ending	<u>\$ 51,653,264</u>	<u>\$ 42,155,985</u>

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

CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 145,315,980
-	2,516,222	19,068,655
-	199,595	66,903,414
8,907,328	5,689,029	34,823,610
<u>8,907,328</u>	<u>8,404,846</u>	<u>266,111,659</u>
-	1,285,387	136,944,913
-	163,324	6,712,790
-	-	3,662,172
-	83,867	13,773,382
-	-	3,734,403
-	4,881,144	4,927,330
-	-	14,704,973
-	-	2,168,619
-	252,129	5,325,563
2,221,428	747,302	24,462,520
-	5,285,609	40,792,296
-	-	2,069,163
-	-	579,560
-	-	3,373,584
-	-	10,161
-	-	267,401
-	-	165,681
<u>2,221,428</u>	<u>12,698,762</u>	<u>263,674,511</u>
<u>6,685,900</u>	<u>(4,293,916)</u>	<u>2,437,148</u>
-	387,285	26,864,058
677,394	-	1,331,385
(15,291,404)	(9,335,369)	(26,114,058)
(5,595,458)	-	(5,595,458)
<u>(20,209,468)</u>	<u>(8,948,084)</u>	<u>(3,514,073)</u>
(13,523,568)	(13,242,000)	(1,076,925)
59,608,285	25,808,222	153,537,113
<u>\$ 46,084,717</u>	<u>\$ 12,566,222</u>	<u>\$ 152,460,188</u>

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds **\$ (1,076,925)**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$42,557,154	
Depreciation expense	<u>(12,454,144)</u>	
		30,103,010

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year special termination benefits amounted to \$1,295,525. Vacation earned was less than the amounts used by \$39,912.

1,335,437

Repayment of notes payable is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.

267,401

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide financial statements as an expense. The actual amount of the contribution was less than the annual required contribution.

(1,061,800)

An internal service fund is used by the District's management to charge the costs of the workers' compensation and health care insurance programs to the individual funds. The net change in assets of the internal service fund is reported with governmental activities.

(1,292,647)

Change in Net Assets of Governmental Activities

\$ 28,274,476

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

IRVINE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 20,378,691
Receivables	192,163
Prepaid expenses	344,536
Total Current Assets	<u>20,915,390</u>
 LIABILITIES	
Current Liabilities	
Accounts payable	1,254,294
Due to other funds	271
Claim liabilities	7,620,143
Total Current Liabilities	<u>8,874,708</u>
 NET ASSETS	
Unrestricted	<u>\$ 12,040,682</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

	Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 23,807,186
Total Operating Revenues	<u>23,807,186</u>
OPERATING EXPENSES	
Payroll costs	231,347
Professional and contract services	24,182,041
Supplies and materials	66,478
Total Operating Expenses	<u>24,479,866</u>
Operating Loss	<u>(672,680)</u>
NONOPERATING REVENUES	
Interest income	130,033
Total Nonoperating Revenues	<u>130,033</u>
Loss Before Transfers	(542,647)
Transfers in	1,100,000
Transfers out	(1,850,000)
Change in Net Assets	<u>(1,292,647)</u>
Total Net Assets - Beginning	13,333,329
Total Net Assets - Ending	<u>\$ 12,040,682</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011

	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 23,807,186
Cash payments to employers for services	(231,347)
Cash payments for insurance claims	(4,494,771)
Cash payments to other suppliers for goods and services	(66,478)
Other operating cash payments	(18,334,150)
Net Cash Provided from Operating Activities	<u>680,440</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	1,100,000
Transfers to other funds	(1,850,000)
Net Cash Used from Noncapital Financing Activities	<u>(750,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	129,309
Net Cash Provided from Investing Activities	<u>129,309</u>
Net change in cash and cash equivalents	59,749
Cash and cash equivalents - Beginning	20,318,942
Cash and cash equivalents - Ending	<u>\$ 20,378,691</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating loss	\$ (672,680)
Changes in assets and liabilities:	
Receivables	79,129
Prepays	(344,536)
Due from other fund	152
Accrued liabilities	1,618,380
Due to other fund	(5)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 680,440</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 20,567,812
Receivables	167,119
Total Assets	<u><u>\$ 20,734,931</u></u>
 LIABILITIES	
Due to student groups	\$ 1,742,135
Due to bondholders	18,992,796
Total Liabilities	<u><u>\$ 20,734,931</u></u>

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Irvine Unified School District (the District) was unified on July 1, 1973, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty-three elementary schools, five middle schools, four high schools, one continuation school, and one adult education center.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Irvine Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units 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 have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The basic financial statements include blended component units. The blended component units, although legally separate entities are, in substance, part of the District's operations and so data from these units are combined with data of the primary government for purposes of reporting in the accompanying basic financial statements.

The Irvine Unified School District and the Irvine Unified School District Financing Authority (the Authority) have financial and operational relationships which meet the reporting entity definition criteria of the GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Authority as a component unit of the District.

The Authority's financial activity is presented in the financial statements in the capital project funds and in the agency fund. Individually prepared financial statements are not prepared for the Authority.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Blended Component Units

Pursuant to the Mello-Roos Community Facilities Act of 1982, the District established the Community Facilities Districts Nos. 86-1, 01-1, 04-1, 04-2A, 04-2B, 06-1, 07-1, and 09-1 legally constituted governmental entities, for the purpose of financing special capital projects. The Community Facilities Districts (CFDs) were authorized, at special elections, to incur indebtedness and subsequently sold bonds for the purpose of providing educational facilities within the District boundaries. The repayment of the bonds is not a general or special obligation of the CFDs, but rather are limited obligations payable solely from the proceeds of special taxes levied on property within the Community Facilities Districts.

The following are those aspects of the relationship between the District and the Community Facilities Districts which satisfy Statement Three criteria.

Manifestations of Oversight

The CFDs and the District have common boards.

The CFDs have no employees. The District's Superintendent functions as an agent of the CFDs.

The District exercises significant influence over operations of the CFDs as all projects of the CFDs involve the Irvine Unified School District.

Accountability of Fiscal Matters

The District is responsible for preparation of the annual budgets for the CFDs.

Scope of Public Service

The CFDs were created specifically to finance capital improvements for the District.

Financial Presentation

For financial presentation purposes, the CFDs' financial activity has been blended, or combined with the financial data of the District. The financial statements present the CFDs' financial activity within the Combined Community Facilities District Capital Projects Funds and in an Agency Fund for the repayment of the Non-Obligatory Debt.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another fund.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (*Education Code* Sections 17010.10-17076.10).

Community Facilities District (CFD) Capital Projects Fund The CFD Capital Projects Fund accumulates proceeds from Bond issuance to be used for acquisition, construction or improvement of major capital facilities.

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Capital Project Funds The Capital Project Funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

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

Internal Service Fund Internal Service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance program that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds include:

- Debt Service Special Tax Bonds – this is an Agency fund used to account for the resources accumulated for the repayment of special assessment debt of the component unit described under financial reporting entity.
- Student Funds – are Agency funds used to account for student fund activities.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund. The internal activity of this fund is eliminated in the government-wide Statement of Activities.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionment, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met, are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when they are incurred.

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County investment pools are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental-type funds and expenses in the proprietary-type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 5 to 25 years; equipment, 5 to 10 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the Statement of Net Assets.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide *Statement of Net Assets*. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balances - Governmental Funds

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

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board, Assistant Superintendent of Business Services (CFO), or the Director of Fiscal Services may assign amounts for specific purposes. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report net assets restricted by enabling legislation of \$106,506,164.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

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

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

New Accounting Pronouncements

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

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 173,967,201
Fiduciary funds	20,567,812
Total Deposits and Investments	<u>\$ 194,535,013</u>

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

Cash on hand and in banks	\$ 2,310,578
Cash in revolving	150,000
Cash with fiscal agent	1,000,000
Investments	191,074,435
Total Deposits and Investments	<u>\$ 194,535,013</u>

Policies and Practices

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

The Treasury Oversight Committee established in December 1995, which consists of the elected County Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, one special district representative member, and one member from the public sector appointed by the Board, conducts Treasury oversight of the Pool. The Pool is not registered with the SEC.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County pool and money market funds.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Weighted Average Days to Maturity
Money Market Funds - Federated Treasury Obligation Funds	\$ 39,490,100	36 days
County Pool - Orange County	151,831,550	289 days
Total	<u>\$ 191,321,650</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2011. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Minimum Legal Rating	Rating June 30, 2011	Fair Value
Money Market Funds - Federated Treasury Obligation Funds	Not Required	AAAm	\$ 39,490,100
County Pool - Orange County	Not Required	Not Rated	151,831,550
Total			<u>\$ 191,321,650</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District's bank balance of \$3,555,707 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Agency Fund
Federal Government							
Categorical aid	\$ 2,613,124	\$ -	\$ -	\$ 302,567	\$ -	\$ 2,915,691	\$ -
State Government							
Categorical aid	5,227,435	-	-	6,337	-	5,233,772	-
Lottery	1,876,308	-	-	-	-	1,876,308	-
Other State	1,905,846	-	-	-	-	1,905,846	-
Local Government							
Interest	46,073	31,278	3,199	10,993	14,451	105,994	-
Developer fees	-	-	-	176,829	-	176,829	-
Other Local Sources	3,649,238	1,700,718	2,210,916	328,128	177,712	8,066,712	167,119
Total	<u>\$15,318,024</u>	<u>\$1,731,996</u>	<u>\$2,214,115</u>	<u>\$ 824,854</u>	<u>\$ 192,163</u>	<u>\$ 20,281,152</u>	<u>\$ 167,119</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 290,998,782	\$ -	\$ -	\$ 290,998,782
Construction in progress	92,740,066	41,372,699	8,067,225	126,045,540
Total Capital Assets Not Being Depreciated	<u>383,738,848</u>	<u>41,372,699</u>	<u>8,067,225</u>	<u>417,044,322</u>
Capital Assets Being Depreciated				
Land improvements	18,696,756	494,895	-	19,191,651
Buildings and improvements	376,728,509	8,434,381	-	385,162,890
Equipment	8,673,553	322,404	-	8,995,957
Total Capital Assets Being Depreciated	<u>404,098,818</u>	<u>9,251,680</u>	<u>-</u>	<u>413,350,498</u>
Less Accumulated Depreciation				
Land improvements	20,990,294	3,510,729	-	24,501,023
Buildings and improvements	108,681,695	8,243,272	-	116,924,967
Equipment	3,536,618	700,143	-	4,236,761
Total Accumulated Depreciation	<u>133,208,607</u>	<u>12,454,144</u>	<u>-</u>	<u>145,662,751</u>
Governmental Activities Capital Assets, Net	<u>\$ 654,629,059</u>	<u>\$ 38,170,235</u>	<u>\$ 8,067,225</u>	<u>\$ 684,732,069</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 10,179,362
General administration	418,080
Plant services	1,567,153
Food services	289,549
Total Depreciation Expenses Governmental Activities	<u>\$ 12,454,144</u>

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2011, between major and non-major governmental funds, and internal service fund are as follows:

	Due From				
	County School Facilities Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
<u>Due To</u> General Fund	<u>\$ 91,785</u>	<u>\$ 913</u>	<u>\$ 844,824</u>	<u>\$ 271</u>	<u>\$ 937,793</u>

The balance of \$937,793 due to the General Fund from the County School Facilities Fund, the CFD Capital Projects Fund, the Internal Service Fund, and the Non-Major Governmental Funds resulted from costs paid by the General Fund but incurred by other funds.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Operating Transfers

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

Transfer To	Transfer From				Total
	General Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 1,570,153	\$ 1,850,000	\$ 3,420,153
County School Facilities Fund	-	15,291,404	7,765,216	-	23,056,620
Non-Major Governmental Funds	387,285	-	-	-	387,285
Internal Service Fund	1,100,000	-	-	-	1,100,000
Total	\$ 1,487,285	\$ 15,291,404	\$ 9,335,369	\$ 1,850,000	\$27,964,058

The General Fund transferred to the Non-Major Governmental Special Reserve Capital Outlay Fund for capital expenditures.	\$ 387,285
The General Fund transferred to the Internal Service Fund for property and liability premiums.	1,100,000
The CFD Capital Projects Fund transferred to the County School Facilities Fund for capital expenditure reimbursements.	15,291,404
The Non-Major Governmental Capital Facilities Fund transferred to the County School Facilities Fund for capital expenditures.	7,765,216
The Non-Major Governmental Special Reserve Capital Outlay Fund transferred to the General Fund for reimbursement of Science costs.	880,387
The Non-Major Governmental Special Reserve Capital Outlay Fund transferred to the General Fund for interest earnings earned.	689,766
The Internal Service Fund transferred to the General Fund for operating expenditures.	1,850,000
Total	\$27,964,058

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	County School Facilities Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$5,405,984	\$ -	\$ -	\$ 338,378	\$ 13,080	\$ 5,757,442
Construction	-	3,575,613	3,496,857	1,285,986	-	8,358,456
Other	3,720,893	-	-	78,761	1,241,214	5,040,868
Total	<u>\$9,126,877</u>	<u>\$3,575,613</u>	<u>\$3,496,857</u>	<u>\$ 1,703,125</u>	<u>\$1,254,294</u>	<u>\$ 19,156,766</u>

NOTE 7 - DEFERRED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 2,425,168	\$ -	\$ 2,425,168
State categorical aid	1,070,763	13,500	1,084,263
Other local	67,874	245,533	313,407
Total	<u>\$ 3,563,805</u>	<u>\$ 259,033</u>	<u>\$ 3,822,838</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010	Additions	Deductions/ Adjustments	Balance June 30, 2011	Due in One Year
Notes payable	\$ 2,145,951	\$ -	\$ 267,401	\$ 1,878,550	\$ 279,501
Accumulated vacation - net	1,112,505	-	39,912	1,072,593	100,000
Supplementary retirement plan	5,829,864	-	1,295,525	4,534,339	1,295,525
Net OPEB obligation	8,530,603	4,537,200	3,475,400	9,592,403	-
	<u>\$ 17,618,923</u>	<u>\$ 4,537,200</u>	<u>\$ 5,078,238</u>	<u>\$ 17,077,885</u>	<u>\$ 1,675,026</u>

Payments for the notes payable and supplementary retirement plan are made by the General Fund. Payments for accumulated vacation will be paid by the fund for which the employee worked. Payments for other long-term obligations will be made by the General Fund.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Notes Payable

The notes payable were issued in September 2005 in the amount of \$3,319,026 to fund energy-retrofitting projects throughout the District.

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2012	\$ 279,501	\$ 78,974	\$ 358,475
2013	292,148	66,327	358,475
2014	305,367	53,108	358,475
2015	319,184	39,291	358,475
2016	333,627	24,848	358,475
2017	348,723	9,752	358,475
Total	<u>\$ 1,878,550</u>	<u>\$ 272,300</u>	<u>\$ 2,150,850</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$1,072,593. District policy requires that accumulated vacation be utilized within a calendar year-end or six months following, unless specifically approved.

Other Early Retirement Incentives

The District adopted a one-time supplementary retirement plan (SRP) for certificated, non-management employees who were employed by the District as of September 15, 2009; were at least 55 years of age with five or more years of District service, and resigned from District employment on or before January 31, 2010. In exchange for early retirement, the District will contribute 95 percent of the 2009-10 contract salary. The District had 75 employees that enrolled in the SRP which created an obligation of \$6,477,627. At June 30, 2011, the obligation for the SRP was \$4,534,339. The District will make annual installment payments over the next four years, as noted in the schedule below:

Year Ending June 30,	Principal	Interest to Maturity	Total
2012	\$ 1,295,525	\$ 71,254	\$ 1,366,779
2013	1,295,525	71,254	1,366,779
2014	1,295,525	71,254	1,366,779
2015	647,764	35,627	683,391
Total	<u>\$ 4,534,339</u>	<u>\$ 249,389</u>	<u>\$ 4,783,728</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$4,849,400 and contributions made by the District during the year were \$3,475,400. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$213,300 and (\$525,500), respectively, which resulted in an increase to the net OPEB obligation of \$1,061,800. As of June 30, 2011, the net OPEB obligation was \$9,592,403. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 9 - NON-OBLIGATORY DEBT

Bonded Debt - Community Facilities District (CFD) Special Tax Bonds

The bonds issued by the Community Facilities Districts (hereinafter referred to as the CFDs) are not obligations of the Irvine Unified School District. The bonds, the interest thereon, and any premiums on the redemption of any of the bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFD, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the bonds. The bonds are payable from the proceeds of an annual special tax levied on and collected from property within the CFD according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Governing Board of Irvine Unified School District. The bonds are secured only by a first pledge of all revenues derived from the net special taxes and the monies deposited in certain funds held by the fiscal agent under the fiscal agent agreement. At June 30, 2011, the CFD Bonds outstanding amounted to \$355,799,320.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	CFD Capital Projects Fund
Nonspendable			
Revolving cash	\$ 150,000	\$ -	\$ -
Stores inventories	288,937	-	-
Prepaid expenditures	13,470	-	-
Total Nonspendable	<u>452,407</u>	<u>-</u>	<u>-</u>
Restricted			
Legally restricted programs	5,813,327	-	-
Capital projects	-	42,155,985	46,084,717
Total Restricted	<u>5,813,327</u>	<u>42,155,985</u>	<u>46,084,717</u>
Committed			
Adult education program	-	-	-
Deferred maintenance program	-	-	-
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>
Assigned			
School site regular program carryover	391,323	-	-
San Joaquin K-12 independent study carryover	31,368	-	-
WASC carryover	9,134	-	-
DAS Montessori - Springbrook carryover	55,214	-	-
Billable programs carryover	32,926	-	-
Facility usage carryover	1,216,863	-	-
Facilities completion account carryover	28,143	-	-
Microsoft upgrade carryover	93,584	-	-
Summer school 9-12 carryover	237,364	-	-
CA High School exit exam carryover	2,934	-	-
Standardized Testing carryover	15,689	-	-
Honors concert carryover	26,228	-	-
Extended learning carryover	281,191	-	-
T3 Do support services carryover	177,046	-	-
Class size support carryover	261,501	-	-
Professional development center carryover	144,117	-	-
Gate carryover	65,421	-	-
IMFRP carryover	259,596	-	-
CAHSEE intensive instruction carryover	98,654	-	-
Creekside/pupil retention block grant	2,486	-	-
TIIG carryover	423,248	-	-
SLIP carryover	636,766	-	-
Future shortfall	34,396,734	-	-
Total Assigned	<u>38,887,530</u>	<u>-</u>	<u>-</u>
Unassigned			
Reserve for economic uncertainties	6,500,000	-	-
Total Unassigned	<u>6,500,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 51,653,264</u>	<u>\$ 42,155,985</u>	<u>\$ 46,084,717</u>

Non-Major Governmental Funds	Total
\$ -	\$ 150,000
116,925	405,862
-	13,470
<u>116,925</u>	<u>569,332</u>
1,268,565	7,081,892
<u>11,066,645</u>	<u>99,307,347</u>
<u>12,335,210</u>	<u>106,389,239</u>
111,469	111,469
2,618	2,618
<u>114,087</u>	<u>114,087</u>
-	391,323
-	31,368
-	9,134
-	55,214
-	32,926
-	1,216,863
-	28,143
-	93,584
-	237,364
-	2,934
-	15,689
-	26,228
-	281,191
-	177,046
-	261,501
-	144,117
-	65,421
-	259,596
-	98,654
-	2,486
-	423,248
-	636,766
-	34,396,734
<u>-</u>	<u>38,887,530</u>
-	6,500,000
<u>-</u>	<u>6,500,000</u>
<u>\$ 12,566,222</u>	<u>\$ 152,460,188</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Irvine Unified School District. The Plan provides vision, medical, and dental insurance benefits to eligible retirees and their spouses. Participants to the Plan include 236 retirees and beneficiaries currently receiving benefits, and 1,695 active employees eligible for these benefits in a future period.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA), and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2010-11, the District contributed \$3,475,400 to the Plan, of which \$2,401,769 was used for current premiums, and \$1,073,631 was a contribution for the implicit rate subsidy portion of the obligation.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$	4,849,400
Interest on net OPEB obligation		213,300
Adjustment to annual required contribution		(525,500)
Annual OPEB cost (expense)		<u>4,537,200</u>
Contribution made		<u>(3,475,400)</u>
Increase in net OPEB obligation		1,061,800
Net OPEB obligation, beginning of year		<u>8,530,603</u>
Net OPEB obligation, end of year	\$	<u><u>9,592,403</u></u>

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 4,844,900	\$ 1,852,394	38%	\$ 5,519,523
2010	4,844,900	1,833,820	38%	8,530,603
2011	4,537,200	3,475,400	77%	9,592,403

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2011	\$ -	\$ 47,636,500	\$ 47,636,500	0%	\$ 144,828,800	33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

On the July 1, 2011, actuarial valuation, the entry age-normal method was used. The actuarial assumptions included a 2.50 percent investment rate of return (net of administrative expenses), based on the assumed combined equity return or plan assets or employer assets. The healthcare cost trend rate used for PPO and HMO programs was eight and nine percent, respectively. The cost trend rate used for the Dental and Vision programs was four and two percent, respectively. The UAAL is being amortized at a level dollar method. The actuarial value of assets was not determined in this actuarial valuation. The District has not established a plan or equivalent arrangement that contains an irrevocable transfer of assets dedicated to providing benefits to retirees.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12 - RISK MANAGEMENT - CLAIMS

Description

The District's risk management activities for health care, property, liability, and workers' compensation exposures are recorded in the Internal Service Funds. Significant losses are covered by commercial insurance for all programs. The District is self-insured in medical and dental claims, and purchases commercial insurance for specific loss (\$100,000), and aggregate loss (125 percent of anticipated claims). The property and liability program for which the District has a self-insured retention level of \$25,000 has a primary level of commercial insurance of \$25,000 - \$1,000,000, and excess property liability coverage is obtained through a property and liability JPA, Southern California Regional Liability Excess Fund (SCR). Refer to Note 15 for additional information regarding the JPAs.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The following is a summary of the insurance policies carried by the District as of June 30, 2011:

<u>Insurance Program Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Workers' Compensation Program	Workers' Compensation	Self-insured to \$350,000
Excess Workers' Compensation	ACE Limited	\$350,000 - \$1,000,000 \$1,000,000 - Unlimited
Property and Liability Program	Commercial Insurance	\$25,000 - \$1,000,000
Primary Coverage	Gulf/Traveler's	
Excess Property and Liability Program	Liability	\$1,000,000 - \$25,000,000
SCR	Property	\$1,000,000 - \$100,000,000

Claims Liabilities

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2011:

	<u>Health Care</u>	<u>Workers' Compensation</u>	<u>Property and Liability</u>	<u>Total</u>
Liability Balance, July 1, 2009	\$ 1,967,591	\$ 3,207,715	\$ 75,000	\$ 5,250,306
Claims and changes in estimates	16,961,038	1,682,190	-	18,643,228
Claims payments	<u>(16,949,980)</u>	<u>(627,657)</u>	<u>-</u>	<u>(17,577,637)</u>
Liability Balance, June 30, 2010	1,978,649	4,262,248	75,000	6,315,897
Claims and changes in estimates	15,461,951	2,267,380	-	17,729,331
Claims payments	<u>(15,536,065)</u>	<u>(889,020)</u>	<u>-</u>	<u>(16,425,085)</u>
Liability Balance, June 30, 2011	<u>\$ 1,904,535</u>	<u>\$ 5,640,608</u>	<u>\$ 75,000</u>	<u>\$ 7,620,143</u>
Assets available to pay claims at June 30, 2011				<u>\$ 20,915,390</u>

The District administers the Workers' Compensation Program through the purchase of commercial insurance for occurrences in excess of \$500,000.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$8,461,413, \$8,539,287, and \$9,095,760, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$3,568,769, \$3,087,191, and \$2,971,302, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.75 percent of an employee's gross earnings. An employee is required to contribute 6.75 percent of his or her gross earnings to the pension plan.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,376,345 (4.267 percent of annual payroll) for the year ended June 30, 2011. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Brywood Relocation	\$ 79,668	December 2011
Culverdale Relocation	6,513	June 2012
Deerfield Expansion	1,687,782	December 2011
Deerfield Modernization	1,318,717	December 2011
Northwood Relocation	26,051	June 2012
PA40 MS	25,596,101	September 2013
Portola Springs	26,947,812	September 2015
Quail Hill Relocation	20,886	June 2012
UHS Pool	635,484	June 2012
UHS Stadium	8,149,913	September 2012
WHS Expansion	2,574,336	June 2012
WHS Modernization	506,922	June 2012
WHS Pool	1,656,154	June 2012
	<u>\$ 69,206,339</u>	

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Irvine Child Care Project (ICCP), the Coastline Regional Occupation Program (CROP), and the Southern California Regional Liability Excess Fund (SCR). The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2011, the District made payments of \$1,079,540 and \$815,717 to CROP and SCR, respectively.

NOTE 16 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), approximately 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 17 - SUBSEQUENT EVENTS

In July 2011, the Irvine Unified School District Community Facilities District No. 09-1 issued Qualified School Construction Bonds in the amount of \$25,000,000. The Bonds have been issued to finance a portion of the costs of certain public facilities and pay the costs of issuing the Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 146,939,624	\$ 145,315,980	\$ 145,315,980	\$ -
Federal sources	8,570,641	20,762,209	16,552,433	(4,209,776)
Other State sources	28,209,540	32,509,981	35,427,781	2,917,800
Other local sources	13,093,500	20,029,277	20,005,878	(23,399)
Total Revenues¹	196,813,305	218,617,447	217,302,072	(1,315,375)
EXPENDITURES				
Current				
Certificated salaries	98,258,572	106,126,254	104,121,292	2,004,962
Classified salaries	33,404,055	35,799,868	35,200,893	598,975
Employee benefits	35,973,993	39,008,659	43,351,861	(4,343,202)
Books and supplies	7,230,966	21,439,772	8,547,325	12,892,447
Services and operating expenditures	21,017,858	18,388,113	18,182,532	205,581
Other outgo	3,953,967	3,289,602	3,121,455	168,147
Capital outlay	355,000	626,738	622,576	4,162
Debt service - principal	267,401	267,401	267,401	-
Debt service - interest	91,074	91,074	91,074	-
Total Expenditures¹	200,552,886	225,037,481	213,506,409	11,531,072
Excess (Deficiency) of Revenues Over Expenditures				
	(3,739,581)	(6,420,034)	3,795,663	10,215,697
OTHER FINANCING SOURCES (USES)				
Transfers in	3,100,000	3,420,153	3,420,153	-
Other sources	127,073	127,073	127,073	-
Transfers out	(1,499,530)	(1,487,285)	(1,487,285)	-
Net Financing Sources (Uses)	1,727,543	2,059,941	2,059,941	-
NET CHANGE IN FUND BALANCE	(2,012,038)	(4,360,093)	5,855,604	10,215,697
Fund Balance - Beginning	45,797,660	45,797,660	45,797,660	-
Fund Balance - Ending	\$ 43,785,622	\$ 41,437,567	\$ 51,653,264	\$ 10,215,697

¹ On behalf payments of \$4,376,345 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

IRVINE UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2007	\$ -	\$ 37,807,200	\$ 37,807,200	0%	\$ 140,660,000	27%
July 1, 2009	-	44,796,100	44,796,100	0%	146,900,500	30%
July 1, 2011	-	47,636,500	47,636,500	0%	144,828,800	33%

SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education (CDE):			
Title I, Part A Cluster:			
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,650,343
NCLB: ARRA Title I, Part A, Basic Grants Low Income and Neglected	84.389	15005	119,330
Total Title I, Part A Cluster			<u>1,769,673</u>
NCLB: Title II, Part A, Improving Teacher Quality	84.367	14341	465,503
NCLB: Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	12,102
NCLB: ARRA Title II, Part D, Enhancing Education Through Technology	84.386	15019	29,298
NCLB: ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.386	15126	23,260
Title III, Part A English Language Acquisition Grants:			
NCLB: Title III, Immigrant Education Program	84.365	15146	192,470
NCLB: Title III, Limited English Proficient (LEP) Student Program	84.365	14346	432,663
NCLB: Title IV, Part A, Drug Free Schools	84.186	14347	23,058
NCLB: Drug-Free Schools: Program Development	84.186	14378	7,257
NCLB: Title X McKinney-Vento Homeless Assistance Grants	84.196	14332	28,092
NCLB: ARRA Title X McKinney-Vento Homeless Assistance	84.387	15007	1,841
Special Education IDEA Cluster:			
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Section 611 (formerly PL 94-142)	84.027	13379	3,271,260
Special Ed: ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.391	15003	1,730,431
Special Ed: IDEA Preschool Grants, Part B, Section 619	84.173	13430	100,979
Special Ed: ARRA IDEA Part B, Sec 619, Preschool Grants	84.392	15000	106,864
Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611	84.027A	13682	269,356
Special Ed: ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	84.391	15002	151,739
Special Ed: IDEA Local Assistance, Part B, Sec 611, Private Schools ISPs	84.027	10115	13,506
Special Ed: ARRA IDEA, Part B, Sec 611, Local Assistance Early Intervening Services	84.391	10124	237,053
Special Ed: IDEA Local Assistance, Part B, Sec 611, Early Intervening Services	84.027	10119	556,124
Special Ed: IDEA Part B, Sec 619, Preschool Grants Early Intervening Services	84.173	10131	3,563
Special Ed: IDEA Part B, Sec 611, Preschool Local Entitlement Early Intervening Services	84.027	10132	15,555
Special Ed: ARRA IDEA Part B, Sec 619, Preschool Grants Early Intervening Services	84.392	10133	5,918
Special Ed: ARRA IDEA Part B, Sec 611, Preschool Local Entitlement Early Intervening Services	84.391	10134	206
Special Ed: IDEA Preschool Staff Development, Part B, Section 619	84.173A	13431	426
Total Special Education IDEA Cluster			<u>6,462,980</u>

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Passed through the California Department of Education (CDE):			
Special Ed: State Improvement Grant, Improving Special Ed Systems	84.323	14577	\$ 1,206
Special Ed: IDEA Early Intervention Grants	84.181	23761	28,621
NCLB Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	2,457
ARRA: State Fiscal Stabilization Fund	84.394	25008	3,811,722
Education Jobs Fund	84.410	25152	3,579,878
The BRIDGES PLUS PWI Program	84.234S	[1]	220,296
Passed through the California Department of Rehabilitation:			
Department of Rehab: Workability II, Transition Partnership	84.126	10006	520,209
ARRA Department of Rehab: Workability II, Transition Partnership	84.390	[2]	70,097
Carl D. Perkins Career and Technical Education:			
Secondary, Section 131	84.048	14894	90,373
Passed through Irvine Valley College:			
Vocational Programs: Voc & Appl Tech Prep Programs, Title II, Section 203 (Carl Perkins Act)	84.243	14899	8,300
Total U.S. Department of Education			<u>17,781,356</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	1,068,294
Basic Breakfast	10.553	13390	142,876
Especially Needy Breakfast	10.553	13526	83,999
Commodities	10.555	[2]	57,166
Total Child Nutrition Cluster			<u>1,352,335</u>
Child Care Food Program	10.558	13393	101,247
Total U.S. Department of Agriculture			<u>1,453,582</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Drug Free STOP Act	93.243	[1]	51,697
Passed through the California Department of Education:			
CalServe: Learn & Serve America	94.004	13161	114,277
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	72,227
Medi-Cal Administrative Activities (MAA)	93.778	10060	313,078
Total Medicaid Cluster			<u>385,305</u>
Child Development: Federal General Child Care, Center Based	93.596	13609	410,964
Passed through Orange County Head Start, Inc.:			
Head Start Cluster:			
Head Start	93.600	10016	642,251
ARRA - Head Start	93.708	10016	9,425
Total Head Start Cluster			<u>651,676</u>
Total U.S. Department of Health and Human Services			<u>1,613,919</u>

[1] - Direct funded program.

[2] - Not available.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Passed through the County of Orange:			
Workforce Investment Act (WIA) From Other Agencies (LWIB)	17.259	10055	\$ 415,125
ARRA Workforce Investment Act (WIA) From Other Agencies (LWIB)	17.259	10055	225,885
Total Workforce Investment Act Cluster			<u>641,010</u>
Total U.S. Department of Labor			<u>641,010</u>
Total Federal Programs			<u><u>\$ 21,489,867</u></u>

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

**SUMMARY OF THE DRUG FREE SUPPORT PROGRAM GRANTS
FOR THE YEAR ENDED JUNE 30, 2011**

	Stop Act Grant No. 1H79SP015377-01
	July 1, 2010
	June 30, 2011
REVENUES	<u>\$ 51,697</u>
EXPENDITURES	
Personal services	\$ 13,000
Operating expenses	<u>38,697</u>
	<u>\$ 51,697</u>

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

ORGANIZATION

The Irvine Unified School District was unified on July 1, 1973, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty-three elementary schools, five middle schools, four high schools, one continuation school, and one adult education center. The District is comprised of an area of approximately 62 square miles, located in Orange County. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Sue Kuwabara	President	2012
Michael Parham	Clerk	2012
Gavin Huntley-Fenner, Ph.D.	Member	2014
Carolyn McInerney	Member	2012
Sharon Wallin	Member	2014

ADMINISTRATION

Gwen E. Gross, Ph.D.	District Superintendent
Lisa Howell	Assistant Superintendent/CFO, Business Services
Cassie Parham	Assistant Superintendent, Education Services
Terry Walker	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,686	1,694
First through third	5,998	6,022
Fourth through sixth	5,983	6,000
Seventh and eighth	4,027	4,035
Home and hospital	3	5
Special education	478	479
Total Elementary	18,175	18,235
SECONDARY		
Regular classes	7,994	7,961
Continuation education	186	186
Home and hospital	8	9
Special education	248	248
Total Secondary	8,436	8,404
Total K-12	26,611	26,639

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

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

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	34,320	33,367	36,000	35,000	35,400	177	-	Complied
Grades 1 - 3	48,917	47,558	50,400	49,000				
Grade 1					49,560	177	-	Complied
Grade 2					49,560	177	-	Complied
Grade 3					49,560	177	-	Complied
Grades 4 - 8	52,754	51,289	54,000	52,500				
Grade 4					53,100	177	-	Complied
Grade 5					53,100	177	-	Complied
Grade 6					53,100	177	-	Complied
Grade 7					55,085	177	-	Complied
Grade 8					55,085	177	-	Complied
Grades 9 - 12	61,600	59,889	64,800	63,000				
Grade 9					63,765	177	-	Complied
Grade 10					63,765	177	-	Complied
Grade 11					63,765	177	-	Complied
Grade 12					63,765	177	-	Complied

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

	<u>Cafeteria Fund</u>
FUND BALANCE	
Balance, June 30, 2011, Unaudited Actuals	\$ 1,077,575
Increase in:	
Cash in bank	<u>115,865</u>
Balance, June 30, 2011, Audited Financial Statement	<u><u>\$ 1,193,440</u></u>

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

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

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND				
Revenues	\$ 199,732,038	\$ 217,302,072	\$ 218,189,886	\$ 218,545,561
Other sources and transfers in	1,377,073	3,547,226	2,961,517	1,122,558
Total Revenues and Other Sources	201,109,111	220,849,298	221,151,403	219,668,119
Expenditures	212,194,985	213,506,409	203,795,621	208,093,128
Other uses and transfers out	2,516,065	1,487,285	6,070,546	6,155,483
Total Expenditures and Other Uses	214,711,050	214,993,694	209,866,167	214,248,611
INCREASE (DECREASE) IN FUND BALANCE	\$ (13,601,939)	\$ 5,855,604	\$ 11,285,236	\$ 5,419,508
ENDING FUND BALANCE	\$ 38,051,325	\$ 51,653,264	\$ 45,797,660	\$ 34,512,424
AVAILABLE RESERVES²	\$ 6,500,000	\$ 6,500,000	\$ 17,118,675	\$ 6,428,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	3.03%	3.15%	8.16%	3.00%
LONG-TERM OBLIGATIONS	N/A	\$ 17,077,885	\$ 17,618,923	\$ 8,981,020
K-12 AVERAGE DAILY ATTENDANCE AT P-2⁴	26,969	26,611	26,165	25,858

The General Fund balance has increased by \$17,140,840 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$13,601,939 (26 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have increased by \$8,096,865 over the past two years.

Average daily attendance has increased by 753 over the past two years. Additional growth of 358 ADA is anticipated during fiscal year 2011-2012.

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

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

³ On-behalf payments of \$4,376,345, \$4,416,623, and \$4,980,067, have been excluded from this schedule for fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ Excludes ROP and Adult ADA.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 139,248	\$ 116,236	\$ 1,549,475
Receivables	395	228,399	279,583
Stores inventories	-	-	116,925
Total Assets	\$ 139,643	\$ 344,635	\$ 1,945,983
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 18,492	\$ 97,442	\$ 301,205
Due to other funds	9,682	55,143	192,305
Deferred revenue	-	-	259,033
Total Liabilities	28,174	152,585	752,543
FUND BALANCES			
Nonspendable	-	-	116,925
Restricted	-	192,050	1,076,515
Committed	111,469	-	-
Total Fund Balances	111,469	192,050	1,193,440
Total Liabilities and Fund Balances	\$ 139,643	\$ 344,635	\$ 1,945,983

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ 2,616	\$ 4,519,869	\$ 8,103,981	\$ 14,431,425
2	180,559	135,916	824,854
-	-	-	116,925
<u>\$ 2,618</u>	<u>\$ 4,700,428</u>	<u>\$ 8,239,897</u>	<u>\$ 15,373,204</u>
\$ -	\$ 34,594	\$ 1,251,392	\$ 1,703,125
-	-	587,694	844,824
-	-	-	259,033
<u>-</u>	<u>34,594</u>	<u>1,839,086</u>	<u>2,806,982</u>
-	-	-	116,925
-	4,665,834	6,400,811	12,335,210
2,618	-	-	114,087
<u>2,618</u>	<u>4,665,834</u>	<u>6,400,811</u>	<u>12,566,222</u>
<u>\$ 2,618</u>	<u>\$ 4,700,428</u>	<u>\$ 8,239,897</u>	<u>\$ 15,373,204</u>

IRVINE UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ -	\$ 1,163,887	\$ 1,352,335
Other State sources	-	-	99,595
Other local sources	271,429	58,735	3,774,973
Total Revenues	<u>271,429</u>	<u>1,222,622</u>	<u>5,226,903</u>
EXPENDITURES			
Current			
Instruction	160,490	1,124,897	-
Instruction-related activities:			
Supervision of instruction	-	163,324	-
School site administration	81,220	2,647	-
Pupil services:			
Food services	-	-	4,881,144
General administration:			
All other general administration	9,595	51,481	191,053
Plant services	589	31,675	593
Facility acquisition and construction	-	-	-
Total Expenditures	<u>251,894</u>	<u>1,374,024</u>	<u>5,072,790</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,535</u>	<u>(151,402)</u>	<u>154,113</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	19,535	(151,402)	154,113
Fund Balances - Beginning	91,934	343,452	1,039,327
Fund Balances - Ending	<u>\$ 111,469</u>	<u>\$ 192,050</u>	<u>\$ 1,193,440</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 2,516,222
100,000	-	-	199,595
(37)	908,034	675,895	5,689,029
<u>99,963</u>	<u>908,034</u>	<u>675,895</u>	<u>8,404,846</u>
-	-	-	1,285,387
-	-	-	163,324
-	-	-	83,867
-	-	-	4,881,144
-	-	-	252,129
175,383	125,867	413,195	747,302
454,828	6,467	4,824,314	5,285,609
<u>630,211</u>	<u>132,334</u>	<u>5,237,509</u>	<u>12,698,762</u>
<u>(530,248)</u>	<u>775,700</u>	<u>(4,561,614)</u>	<u>(4,293,916)</u>
-	-	387,285	387,285
-	(7,765,216)	(1,570,153)	(9,335,369)
-	(7,765,216)	(1,182,868)	(8,948,084)
(530,248)	(6,989,516)	(5,744,482)	(13,242,000)
532,866	11,655,350	12,145,293	25,808,222
<u>\$ 2,618</u>	<u>\$ 4,665,834</u>	<u>\$ 6,400,811</u>	<u>\$ 12,566,222</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA: State Fiscal Stabilization Funds, that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 19,068,655
ARRA: State Fiscal Stabilization Funds	84.394	2,610,184
Medi-Cal Billing Option	93.778	(188,972)
Total Schedule of Expenditures of Federal Awards		<u>\$ 21,489,867</u>

Summary of the Drug Free Support Program Grants

The U.S. Department of Health and Human Services requires that expenditures by category information be presented in the fiscal year reports. This schedule was prepared to comply with this requirement.

Local Education Agency Organization Structure

This schedule provides information about the District boundaries and school operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Irvine Unified School District
Irvine, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Irvine Unified School District as of and for the year ended June 30, 2011, which collectively comprise Irvine Unified School District's basic financial statements and have issued our report thereon dated December 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2011-1 and 2011-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Irvine Unified School District in a separate letter dated December 1, 2011.

Irvine Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Irvine Unified School District's responses and, accordingly, express no opinion on the responses.

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

Vannier, Tine, Day & Co., LLP.

Rancho Cucamonga, California
December 1, 2011



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

Governing Board
Irvine Unified School District
Irvine, California

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Vallier, Time, Day Co., LLP.

Rancho Cucamonga, California
December 1, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Irvine Unified School District
 Irvine, California

We have audited Irvine Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Irvine Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Irvine Unified School District's management. Our responsibility is to express an opinion on Irvine Unified School District's compliance based on our audit.

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

In our opinion, Irvine Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as item 2011-3.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Irvine Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
District or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not applicable
Mode of instruction	1	Not applicable
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instruction minutes classroom based	3	Not applicable

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

Vaurinek, Time, Baya Co., LLP.

Rancho Cucamonga, California
December 1, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

IRVINE UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.391, 84.391 (ARRA), and 84.392 (ARRA)	Special Education Cluster (includes ARRA)
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization Fund</u>
<u>17.259 and 17.259 (ARRA)</u>	<u>Work Force Investment Act (includes ARRA)</u>
<u>84.126</u>	<u>Workability II Transition Partnership</u>
<u>84.390 (ARRA)</u>	<u>ARRA: Workability II Transition Partnership</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 644,696</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2011-1 30000

Associated Student Body – All Sites

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the activities of the associated student body (ASB) accounts.

Condition

There is a lack of segregation of duties inherent in the accounting for the ASBs at the sites since the one person assigned is responsible for the collection and deposit of funds, the preparation of the checks, the reconciliation of the bank accounts, and the preparation of periodic reports.

Questioned Costs

There were no questioned costs during the current fiscal year.

Context

There was a combined reported balance for ASB bank accounts of approximately \$1.7 million at June 30, 2011.

Effect

The condition identified could result in misappropriation of assets.

Cause

The District has determined in the past that it has not been cost beneficial to provide additional segregation of duties at the sites for the accounting of the ASB's funds.

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

We recommend that steps be taken to provide for enhanced segregation of duties over the accounting for the activity at the ASB sites and/or additional monitoring of those activities. One way to accomplish this is through periodic internal audits that include review of: 1) transactions over the collection and deposit of funds, 2) bank reconciliations and cancelled checks, 3) payment process and invoices, and 4) periodic reporting. The internal audits should include documenting the ASB visits, documents reviewed, observations, and conclusions. Additional segregation of duties can be accomplished by having the bank statements first delivered to someone other than the person responsible for collection and deposit of funds, 2) bank reconciliations and cancelled checks, 3) payment process and invoices, and 4) periodic reporting. The internal audits should include documenting the ASB visits, documents reviewed, observations, and conclusions. Additional segregation of duties can be accomplished by having the bank statements first delivered to someone other than the person performing the collection, deposit and reconciliation. The statements and cancelled checks should be reviewed for unusual items such as lack of timely deposits or checks that are not for ASB activity.

District Response

The District will contract with its external auditors, Vavrinek, Trine, Day & Co. to provide ASB training during the 2012-2013 school year. The District feels that training in the beginning of the school year will be more beneficial to principals, activities directors and ASB clerks. There will be additional emphasis on the importance of segregation of duties. The hiring of additional staff is not possible at this time due to budget constraints.

2011-2 30000

Payroll Process of Stipends

Criteria or Specific Requirements

Industry standards and general best practices require a system of internal control that will adequately safeguard and manage District assets.

Condition

During testing of internal controls over payroll, it was noted that athletic stipends were paid to District employees without being approved or authorized by the employee's supervisor and site manager, Human Resource Department, and the Fiscal Services Department.

Questioned Costs

There were no questioned costs during the current fiscal year.

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Context

The amount of the athletic stipends noted and paid to District employees were approximately \$95,000.

Effect

The condition identified could result in unauthorized payments to District employees.

Cause

The cause is attributed to policies and procedures not being in place on how to process stipends from the sites.

Recommendation

The District should develop policies and procedures that will ensure that stipends are properly authorized and approved before payments are made to employees.

District Response

As of July 1, 2011, any athletic stipend is entered into the Human Resources Stipend database for approval by site supervisor, Human Resources, and Fiscal Services before being processed by Payroll. This is the current process being utilized by all other stipend requests.

IRVINE UNIFIED SCHOOL DISTRICT

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

None reported.

IRVINE UNIFIED SCHOOL DISTRICT

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

The following finding represents instances of noncompliance relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
72000	School Accountability Report Card

2011-3 72000

School Accountability Report Card

Criteria or Specific Requirements

It is the intent of the legislature that schools make a concerted effort to notify parents of the purpose of the school accountability report cards, as described in this section, and ensure that all parents receive a copy of the report card; to ensure that the report cards are easy to read and understandable by parents; to ensure that local educational agencies with access to the Internet make available current copies of the report cards through the Internet; and to ensure that administrators and teachers are available to answer any questions regarding the report cards.

Education Code Section: 33126 (d)

Condition

During testing of the 2009-2010 School Accountability Report Cards it was noted that the District had the reports completed in a timely manner, but failed to post the SARC on the internet for one site.

Questioned Costs

None.

Context

The 2009-2010 School Accountability Report Card for one site was not posted on the internet.

Effect

The District is not in compliance with State requirements related to School Accountability Report Cards.

Cause

The District does not have a control in place to ensure that all School Accountability Report Cards are posted on the internet in a timely manner.

IRVINE UNIFIED SCHOOL DISTRICT

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

Recommendation

The District should implement a procedure to ensure that School Accountability Report Cards are made available through the internet in a timely manner.

District Response

The School Accountability Report Cards are manually uploaded to the website. In the future there will be a checklist with each of the schools names to verify and mark off once each site is posted.

IRVINE UNIFIED SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2010-1 30000

Associated Student Body – All Sites

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the activities of the associated student body (ASB) accounts.

Condition

There is a lack of segregation of duties inherent in the accounting for the ASBs at the sites since the one person assigned is responsible for the collection and deposit of funds, the preparation of the checks, the reconciliation of the bank accounts, and the preparation of periodic reports.

Questioned Costs

There were no questioned costs during the current fiscal year.

Context

There was a combined reported balance for ASB bank accounts of approximately \$1.7 million at June 30, 2010.

Effect

The condition identified could result in misappropriation of assets.

Cause

The District has determined in the past that it has not been cost beneficial to provide additional segregation of duties at the sites for the accounting of the ASB's funds.

IRVINE UNIFIED SCHOOL DISTRICT

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

Recommendation

We recommend that steps be taken to provide for enhanced segregation of duties over the accounting for the activity at the ASB sites and/or additional monitoring of those activities. One way to accomplish this is through periodic internal audits that include review of: 1) transactions over the collection and deposit of funds, 2) bank reconciliations and cancelled checks, 3) payment process and invoices, and 4) periodic reporting. The internal audits should include documenting the ASB visits, documents reviewed, observations, and conclusions. Additional segregation of duties can be accomplished by having the bank statements first delivered to someone other than the person responsible for collection and deposit of funds, 2) bank reconciliations and cancelled checks, 3) payment process and invoices, and 4) periodic reporting. The internal audits should include documenting the ASB visits, documents reviewed, observations, and conclusions. Additional segregation of duties can be accomplished by having the bank statements first delivered to someone other than the person performing the collection, deposit and reconciliation. The statements and cancelled checks should be reviewed for unusual items such as lack of timely deposits or checks that are not for ASB activity.

Current Status

Not implemented. See current year financial statement finding 2011-1.

2010-2 30000

Payroll and Human Resource Account Reconciliation

Criteria or Specific Requirements

Industry standards and general best practices require a system of internal control that will adequately safeguard and manage District assets.

Condition

The Payroll Department has access to modify salary schedule placement and edit pay rates within the payroll system. The Human Resource and the Payroll Department functions are not adequately segregated.

Questioned Costs

There were no questioned costs during the current fiscal year.

Context

District-wide salaries for the fiscal year June 30, 2010 were approximately \$143.1 million.

IRVINE UNIFIED SCHOOL DISTRICT

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

Effect

The condition identified could result in inappropriate changes to restricted data that might go undetected by District internal controls.

Cause

The cause is attributed to the Human Resource and Payroll systems not being fully integrated.

Recommendation

Proper segregation of duties requires authorization of payroll entries be separated from the recording functions of payroll. Therefore, only the Human Resource Department should have access to make changes to employee pay. Within the current systems available to the District, if the Payroll Department must be responsible to modify salary schedule placement or edit pay rates, the Human Resource Department should receive a report with all changes made and reconcile to the authorized payroll change data. This will provide a compensating control that will help ensure that all changes have been properly authorized.

Current Status

Implemented.

2010-3 30000

Human Resource, Payroll, and Site Administration

Criteria or Specific Requirements

Industry standards and general best practices require a system of internal control that will adequately safeguard and manage District assets.

Condition

During testing of internal controls over payroll, it was noted that employees were paid several months after their last date of employment.

Questioned Costs

The questioned costs noted during the current fiscal year were approximately \$15,000.

Context

District-wide salaries for the fiscal year June 30, 2010 were approximately \$143.1 million.

IRVINE UNIFIED SCHOOL DISTRICT

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

Effect

The condition identified resulted in excess payments required to be repaid to the District that must be billed and collected from the terminated employee.

Cause

Information related to an employee's termination date was not forwarded to the Payroll Department in a timely manner.

Recommendation

All information related to the termination of an employee should be forwarded to the Payroll Department prior to the final employment date of the employee. The Payroll Department will then be able to properly calculate the final payroll data and properly pay amounts owed to the employee.

Current Status

Implemented.

2010-4 30000

Payroll Process of Stipends

Criteria or Specific Requirements

Industry standards and general best practices require a system of internal control that will adequately safeguard and manage District assets.

Condition

During testing of internal controls over payroll, it was noted that athletic stipends were paid to District employees without being approved or authorized by the employee's supervisor and site manager, Human Resource Department, and the Fiscal Services Department.

Questioned Costs

There were no questioned costs during the current fiscal year.

Context

The amount of the athletic stipends noted and paid to District employees were approximately \$85,000.

Effect

The condition identified could result in unauthorized payments to District employees.

IRVINE UNIFIED SCHOOL DISTRICT

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

Cause

The cause is attributed to policies and procedures not being in place on how to process stipends from the sites.

Recommendation

The District should develop policies and procedures that will ensure that stipends are properly authorized and approved before payments are made to employees.

Current Status

Not implemented. See current year financial statement finding 2011-2.



Governing Board
Irvine Unified School District
Irvine, California

In planning and performing our audit of the financial statements of Irvine Unified School District (the District), for the year ended June 30, 2011, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2011, on the financial statements of Irvine Unified School District.

ASSOCIATED STUDENT BODY

Irvine High School, Northwood High School, University High School, Woodbridge High School, and Creekside High School

Disallowed Costs

Observation

It was noted that expenditures were being made for the purchase of items which appear to be for the general use of the site and not for the direct benefit of the student welfare.

Recommendation

The purpose of the ASB is to benefit the students; therefore the District should ensure that ASB expenditures are for the direct benefit of the student body and should not be made for items that are for site use.

Rancho San Joaquin Middle School

Cash Receipting

Observation

It was noted that the site does not issue receipts for amounts collected from students or parents.

Governing Board
Irvine Unified School District

Recommendation

All amounts collected by the ASB should be supported by a receipt written to the individual making the payment. This will assist in ensuring that all amounts collected are deposited into the bank account.

Bank Reconciliations

Observation

It was noted that the site did not prepare its bank reconciliations in a timely manner and the reconciliation included stale dated items.

Recommendation

Bank reconciliations should be prepared as soon as the bank statement is received. This will ensure that any bank errors or fraudulent activities can be identified and rectified as soon as possible. In addition, it is unlikely that the outstanding items will clear the bank and are being carried forward on the reconciliations unnecessarily. The amounts should be written off and reissued at a later date if needed.

University High School

Cash Handling Procedures

Observation

It was noted that during busier times in the ASB office, cash is left sitting on the desk while students are in the office and additional cash collections are being made.

Recommendation

The ASB bookkeeper should ensure that funds are placed in a secure location as soon as they are received in order to ensure that all monies collected are retained and used for their intended purpose.

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

Vaerimek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
December 1, 2011