



**IRVINE
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

IRVINE UNIFIED SCHOOL DISTRICT

OF ORANGE COUNTY

IRVINE, CALIFORNIA

JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Carolyn McInerney	President	2008
Gavin Huntley-Fenner	Clerk	2010
Michael Parham	Member	2008
Sue Kuwabara	Member	2008
Sharon Wallin	Member	2010

ADMINISTRATION

Gwen E. Gross, Ph.D	District Superintendent
Vernon Medeiros, Ed.D.	Deputy Superintendent, Business Services
Cassie Parham	Assistant Superintendent, Education Services
Terry Walker	Assistant Superintendent, Human Resources

IRVINE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

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 Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide 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	49
Schedules of OPEB Funding Progress and Employer Contribution	50

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	52
Summary of the Drug Free Support Program Grants	54
Local Education Agency Organization Structure	55
Schedule of Average Daily Attendance	56
Schedule of Instructional Time	57
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	58
Schedule of Financial Trends and Analysis	59
Excess Sick Leave	60
Note to Supplementary Information	61

SUPPLEMENTARY INFORMATION – UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	65
Note to Supplementary Information - Unaudited	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>	68
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	70
Report on State Compliance	72

IRVINE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	75
Financial Statement Findings	76
Federal Award Findings and Questioned Costs	80
State Award Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	82
Management Letter	84

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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 2007-08*, 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008, 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 information on pages 49 and 50, is not a required part of the basic financial statements, but is 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.

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.

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. 45 for the year ended June 30, 2008.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds and Selected Financial Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vaurinek, Thine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2008



Irvine Unified School District

5050 Barranca Parkway, Irvine, CA 92604-4652, 949/936-5000, FAX 949/936-5259 www.iusd.org

This section of the Irvine Unified School District's (the District) 2007-2008 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. 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, 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 *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The fiduciary activities 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.

BOARD OF EDUCATION

GAVIN HUNTLEY-FENNER, Ph.D. / SUE KUWABARA / CAROLYN McINERNEY / MIKE PARHAM / SHARON WALLIN
GWEN E. GROSS, Ph.D., *Superintendent of Schools*
VERNON MEDEIROS, Ed.D., *Deputy Superintendent, Business Services*
CASSIE PARHAM, *Assistant Superintendent, Education Services* / TERRY WALKER, *Assistant Superintendent, Human Resources*

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

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 separate 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, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in separate *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, 2008

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$784.0 million for the fiscal year ended June 30, 2008. Of this amount, \$29.9 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2008	2007
ASSETS		
Current and other assets	\$ 209.9	\$ 243.7
Capital assets	605.6	546.2
Total Assets	815.5	789.9
LIABILITIES		
Current liabilities	25.3	29.4
Long-term obligations	6.2	3.8
Total Liabilities	31.5	33.2
NET ASSETS		
Invested in capital assets, net of related debt	603.0	543.3
Restricted	151.1	183.0
Unrestricted	29.9	30.4
Total Net Assets	\$ 784.0	\$ 756.7

The \$29.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. This unrestricted net assets decreased by over \$.5 million from June 30, 2007.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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	
	2008	2007
Revenues		
Program revenues:		
Charges for services	\$ 5.9	\$ 5.7
Operating grants and contributions	47.7	48.2
Capital grants and contributions	15.5	36.0
General revenues:		
Federal and State aid not restricted	22.9	28.0
Property taxes	146.9	129.2
Other general revenues	29.2	144.7
Total Revenues	268.1	391.8
Expenses		
Instruction-related	179.0	173.2
Student support services	19.4	18.6
Administration	9.2	8.0
Maintenance and operations	25.1	24.9
Other	8.0	6.6
Total Expenses	240.7	231.3
Change in Net Assets	\$ 27.4	\$ 160.5

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$240.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$146.9 million because the cost was paid by those who benefited from the programs (\$5.9 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$47.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$52.1 million in Federal and State funds and other revenues, like interest and general entitlements.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

In Table 3, we have presented the net cost of each of the District's four 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	
	2008	2007
Instruction-related	\$ 130.8	\$ 102.8
Student support services	9.3	8.4
Administration	7.3	5.3
Maintenance and operations	24.2	24.3
Other	-	0.6
Total	\$ 171.6	\$ 141.4

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$169.2 million, which is a decrease of \$30.5 million from last year.

The primary reason for the decrease is primarily due to the decrease in funds received from the Community Facilities District Capital Projects Fund.

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 49).

Budgeted expenditures increased by \$22.8 million due to the appropriation of prior year fund balances, reserves for bargaining agreements, as well as budgets for gift monies. The District also provided a two percent Cost of Living increase for employee salaries that was included in the original budget. These items are not known at the time the budget is adopted and are added to the program balances as they occur.

IRVINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$714.1 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	
	2008	2007
Land and construction in process	\$ 313.8	\$ 288.8
Buildings and improvements	285.9	252.9
Furniture and equipment	5.9	4.5
Total	\$ 605.6	\$ 546.2

Long-Term Obligations

At the end of this year, the District had \$6.2 million in Long-Term Obligations outstanding versus \$3.8 million last year; an increase of 63 percent.

Table 5

(Amounts in millions)

	Governmental Activities	
	2008	2007
Notes payable	\$ 2.7	\$ 2.9
Accumulated vacation - net	1.0	0.9
Net OPEB obligation	2.5	-
Total	\$ 6.2	\$ 3.8

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, 2008

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-2008 ARE NOTED BELOW:

- Two-percent (2%) salary agreement reached with all bargaining units
- Continuance of the modernization program for school site improvements
- Opening of Woodbury Elementary School
- Stonegate Elementary School construction in progress
- Ending balance goal obtained to address potential 2008-09 budget shortfall

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2008-2009 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income will adjust by .68 percent.
2. Growth of 250 students is anticipated.
3. Federal revenues are expected to decline due to the reduction of MAA funds.
4. Other local revenue is projected to decrease slightly due to interest earnings and gift funds.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Kindergarten	33.5:1	1,740
Grades one through three	20:1	5,737
Grades four through six	33.5:1	6,034
Grades seven through twelve	32:1	12,951

The new items specifically addressed in the budget are:

1. Budget cuts of \$12.6 million were included in the 2008-09 Adopted Budget.
2. Class size increased by two students at most grade levels.
3. No salary increases are projected for 2008-09.
4. No increases in health benefits are projected for 2008-09.
5. Additional designated monies have been included in the reserve for anticipated mid-year cuts due to the State budget crises.
6. The Retiree Benefit Fund was removed and the monies were transferred to the Insurance Reserve Fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

IRVINE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2008

	Governmental Activities
ASSETS	
Deposits and investments	\$ 191,078,129
Receivables	18,276,802
Prepaid expenses	22,599
Stores inventories	385,296
Other current assets	116,407
Capital assets:	
Land and construction in progress	313,790,849
Other capital assets	400,311,778
Less accumulated depreciation	(108,489,140)
Total Capital Assets	<u>605,613,487</u>
Total Assets	<u>815,492,720</u>
LIABILITIES	
Accounts payable	18,599,699
Deferred revenue	274,554
Claims liability	6,404,471
Current portion of long-term obligations	344,751
Noncurrent portion of long-term obligations	5,828,886
Total Liabilities	<u>31,452,361</u>
NET ASSETS	
Invested in capital assets, net of related debt	602,966,959
Restricted for:	
Capital projects	138,050,802
Educational programs	11,061,982
Other activities	2,073,069
Unrestricted	29,887,547
Total Net Assets	<u>\$ 784,040,359</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 153,747,408	\$ 130,483	\$ 25,504,013	\$ 15,458,982
Instruction-related activities:				
Supervision of instruction	7,041,662	14,035	4,442,588	-
Instructional library, media, and technology	4,132,074	6,653	2,044,994	-
School site administration	14,130,660	5,220	589,879	-
Pupil services:				
Home-to-school transportation	3,660,787	387,092	1,102,094	-
Food services	5,068,400	3,929,963	691,145	-
All other pupil services	10,701,667	18,734	4,034,433	-
General administration:				
Data processing	2,383,572	-	-	-
All other general administration	6,787,706	215,214	1,667,708	-
Plant services	25,079,928	38,070	836,820	-
Ancillary services	1,845,209	294,859	198,350	-
Community services	465,002	-	70,939	-
Enterprise services	12,363	-	-	-
Interest on long-term obligations	124,319	-	-	-
Other outgo	5,559,839	898,438	6,543,157	-
Total Governmental Activities	\$ 240,740,596	\$ 5,938,761	\$ 47,726,120	\$ 15,458,982

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/>	
\$	(112,653,930)
	(2,585,039)
	(2,080,427)
	(13,535,561)
	(2,171,601)
	(447,292)
	(6,648,500)
	(2,383,572)
	(4,904,784)
	(24,205,038)
	(1,352,000)
	(394,063)
	(12,363)
	(124,319)
	1,881,756
	<hr/>
	(171,616,733)
	<hr/>
	136,877,836
	10,067,166
	22,908,800
	2,243,428
	26,890,412
	<hr/>
	198,987,642
	27,370,909
	756,669,450
	<hr/>
\$	784,040,359
	<hr/>

IRVINE UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2008

	General Fund	County School Facilities Fund
ASSETS		
Deposits and investments	\$ 24,581,317	\$ 52,941,639
Receivables	12,769,387	1,611,189
Due from other funds	728,363	346,926
Prepaid expenditures	9,159	-
Stores inventories	270,284	-
Other current assets	116,407	-
Total Assets	\$ 38,474,917	\$ 54,899,754
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 9,208,535	\$ 4,494,548
Due to other funds	32,000	205,115
Deferred revenue	141,466	-
Total Liabilities	9,382,001	4,699,663
FUND BALANCES		
Reserved for:		
Revolving cash	150,000	-
Stores inventories	270,284	-
Prepaid expenditures	9,159	-
Legally restricted balance	11,055,886	-
Unreserved:		
Designated	17,607,587	-
Undesignated, reported in:		
Special revenue funds	-	-
Capital projects funds	-	50,200,091
Total Fund Balance	29,092,916	50,200,091
Total Liabilities and Fund Balances	\$ 38,474,917	\$ 54,899,754

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

CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 66,412,819	\$ 25,125,031	\$ 169,060,806
2,473,083	974,849	17,828,508
-	32,000	1,107,289
-	13,440	22,599
-	115,012	385,296
-	-	116,407
<u>\$ 68,885,902</u>	<u>\$ 26,260,332</u>	<u>\$ 188,520,905</u>

\$ 3,414,550	\$ 805,235	\$ 17,922,868
380,048	489,533	1,106,696
-	133,088	274,554
<u>3,794,598</u>	<u>1,427,856</u>	<u>19,304,118</u>

-	-	150,000
-	115,012	385,296
-	13,440	22,599
-	-	11,055,886
-	-	17,607,587
-	1,944,617	1,944,617
65,091,304	22,759,407	138,050,802
<u>65,091,304</u>	<u>24,832,476</u>	<u>169,216,787</u>
<u>\$ 68,885,902</u>	<u>\$ 26,260,332</u>	<u>\$ 188,520,905</u>

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2008

Total Fund Balance - Governmental Funds		\$ 169,216,787
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	\$ 714,102,627	
Accumulated depreciation is	<u>(108,489,140)</u>	
Total Capital Assets		605,613,487
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.		15,383,722
Long-term obligations at year-end consist of:		
Notes payable	2,646,528	
Compensated absences	1,000,092	
Net OPEB obligation	<u>2,527,017</u>	
Total Long-Term Obligations		<u>(6,173,637)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 784,040,359</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 BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	County School Facilities Fund
REVENUES		
Revenue limit sources	\$ 147,487,455	\$ -
Federal sources	8,684,898	-
Other State sources	48,296,447	13,615,307
Other local sources	18,685,198	1,843,675
Total Revenues	223,153,998	15,458,982
EXPENDITURES		
Current		
Instruction	142,627,338	-
Instruction-related activities:		
Supervision of instruction	6,695,511	-
Instructional library, media, and technology	4,118,143	-
School site administration	13,642,589	-
Pupil services:		
Home-to-school transportation	3,658,424	-
Food services	5,066	-
All other pupil services	10,661,382	-
General administration:		
Data processing	2,379,266	-
All other general administration	5,895,262	-
Plant services	22,055,182	-
Facility acquisition and construction	32,335	28,068,681
Ancillary services	1,844,370	-
Community services	464,572	-
Enterprise services	8,443	-
Debt service		
Principal	234,156	-
Interest and other	124,319	-
Total Expenditures	214,446,358	28,068,681
Excess (Deficiency) of Revenues Over Expenditures	8,707,640	(12,609,699)
OTHER FINANCING SOURCES (USES)		
Transfers in	3,302,483	25,698,443
Other sources	-	675,351
Transfers out	(1,240,099)	-
Other uses	(4,344,769)	-
Net Financing Sources (Uses)	(2,282,385)	26,373,794
NET CHANGE IN FUND BALANCES	6,425,255	13,764,095
Fund Balance- Beginning	22,667,661	36,435,996
Fund Balance - Ending	\$ 29,092,916	\$ 50,200,091

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

CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 147,487,455
-	1,975,642	10,660,540
-	2,183,730	64,095,484
13,247,965	4,215,230	37,992,068
<u>13,247,965</u>	<u>8,374,602</u>	<u>260,235,547</u>
-	1,463,388	144,090,726
-	326,279	7,021,790
-	13,187	4,131,330
-	448,667	14,091,256
-	-	3,658,424
-	4,831,769	4,836,835
-	13,883	10,675,265
-	-	2,379,266
-	322,627	6,217,889
787,270	1,231,577	24,074,029
40,885,411	1,420,317	70,406,744
-	-	1,844,370
-	-	464,572
-	3,219	11,662
-	-	234,156
-	-	124,319
<u>41,672,681</u>	<u>10,074,913</u>	<u>294,262,633</u>
<u>(28,424,716)</u>	<u>(1,700,311)</u>	<u>(34,027,086)</u>
-	440,099	29,441,025
2,409,970	4,110,000	7,195,321
(25,298,724)	(1,002,202)	(27,541,025)
(1,215,070)	-	(5,559,839)
<u>(24,103,824)</u>	<u>3,547,897</u>	<u>3,535,482</u>
(52,528,540)	1,847,586	(30,491,604)
117,619,844	22,984,890	199,708,391
<u>\$ 65,091,304</u>	<u>\$ 24,832,476</u>	<u>\$ 169,216,787</u>

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds **\$ (30,491,604)**

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	\$70,561,270	
Depreciation expense	<u>(11,131,578)</u>	
		59,429,692

In the statement of activities, certain operating expenses - compensated absences (vacations) 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). Vacation earned was more than the amounts used by \$87,274. (87,274)

Repayment of bond principal 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:

Notes payable		234,156
---------------	--	---------

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. (2,527,017)

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.

	<u>812,956</u>	
Change in Net Assets of Governmental Activities		<u><u>\$ 27,370,909</u></u>

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2008

	<u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 22,017,323
Receivables	448,294
Total Current Assets	<u>22,465,617</u>
 LIABILITIES	
Current Liabilities	
Accounts payable	676,831
Due to other funds	593
Claim liabilities	6,404,471
Total Current Liabilities	<u>7,081,895</u>
 NET ASSETS	
Unrestricted	15,383,722
Total Net Assets	<u>\$ 15,383,722</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, 2008

	Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 25,318,462
Total Operating Revenues	<u>25,318,462</u>
OPERATING EXPENSES	
Payroll costs	274,646
Professional and contract services	23,004,746
Supplies and materials	6,752
Total Operating Expenses	<u>23,286,144</u>
Operating Income	<u>2,032,318</u>
NONOPERATING REVENUES	
Interest income	680,638
Total Nonoperating Revenues	<u>680,638</u>
Income Before Capital Contributions and Transfers	2,712,956
Transfers in	800,000
Transfers out	(2,700,000)
Change in Net Assets	<u>812,956</u>
Total Net Assets - Beginning	14,570,766
Total Net Assets - Ending	<u><u>\$ 15,383,722</u></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, 2008

	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 25,318,462
Cash payments to employers for services	(274,646)
Cash payments for insurance claims	(4,100,486)
Cash payments to other suppliers for goods and services	(6,752)
Other operating cash payments	(17,825,057)
Net Cash Provided from Operating Activities	<u>3,111,521</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	800,000
Transfers to other funds	(2,700,000)
Net Cash Used from Noncapital Financing Activities	<u>(1,900,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	728,542
Net Cash Provided from Investing Activities	<u>728,542</u>
Net increase in cash and cash equivalents	1,940,063
Cash and cash equivalents - Beginning	20,077,260
Cash and cash equivalents - Ending	<u>\$ 22,017,323</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating income	\$ 2,032,318
Changes in assets and liabilities:	
Receivables	200,460
Accrued liabilities	878,850
Due to other fund	(107)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 3,111,521</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 23,563,349
Receivables	17,435
Total Assets	<u>\$ 23,580,784</u>
LIABILITIES	
Due to student groups	\$ 1,783,321
Due to bondholders	21,797,463
Total Liabilities	<u>\$ 23,580,784</u>

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008

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, and 07-1 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, 2008

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 the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this 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 from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

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.

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.

Retiree Benefit Fund The Retiree Benefit Fund (for Postemployment Benefits) may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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, 2008

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 balance 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, 2008

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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.

Prepaid Expenditures

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

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

Compensated Absences

Accumulated unpaid vacation benefits 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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise 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 Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

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 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 reports \$151,185,853 of restricted net assets.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 purposes. Operating expenses are necessary costs incurred to provide the self-insurance services.

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.

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 purposes of the budget, 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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Changes in Accounting Principles

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

This Statement provided for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2008. The District had an annual required contribution of \$4,381,100 for the year ended June 30, 2008, and made a contribution of \$1,854,083 resulting in an OPEB obligation of \$2,527,017.

New Accounting Pronouncements

In May 2007, GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 191,078,129
Fiduciary funds	23,563,349
Total Deposits and Investments	<u>\$ 214,641,478</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 2,358,235
Cash in revolving	150,000
Cash with fiscal agent	1,000,000
Investments	211,133,243
Total Deposits and Investments	<u>\$ 214,641,478</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, 2008

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.

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, 2008

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	Days to Maturity
Money Market Funds - Federated Treasury Obligation Funds	\$ 54,432,983	19 days*
County Pool - Orange County	156,477,152	212 days*
Total	\$ 210,910,135	

*Weighted average days to maturity

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 investments in the County pool are not required to be rated. 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, 2008	Fair Value
Money Market Funds - Federated Treasury Obligation Funds	Not Required	Aaa	\$ 54,432,983
County Pool - Orange County	Not Required	Not Rated	156,477,152
Total			\$ 210,910,135

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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's bank balance of \$5,387,889 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, 2008

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, 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	\$ 2,832,729	\$ -	\$ -	\$ 401,362	\$ -	\$ 3,234,091	\$ -
State Government							
Apportionment	3,508,427	-	-	147,699	-	3,656,126	-
Categorical aid	2,216,428	-	-	14,226	-	2,230,654	-
Lottery	1,699,214	-	-	-	-	1,699,214	-
Other State	435,809	-	-	-	-	435,809	-
Local Government							
Interest	116,031	117,758	10,470	58,039	43,448	345,746	-
Developer fees	-	-	-	94,345	-	94,345	-
Other Local Sources	1,960,749	1,493,431	2,462,613	259,178	404,846	6,580,817	17,435
Total	<u>\$12,769,387</u>	<u>\$ 1,611,189</u>	<u>\$ 2,473,083</u>	<u>\$ 974,849</u>	<u>\$ 448,294</u>	<u>\$ 18,276,802</u>	<u>\$ 17,435</u>

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 251,316,581	\$ 39,682,201	\$ -	\$ 290,998,782
Construction in progress	37,480,918	29,191,930	43,880,781	22,792,067
Total Capital Assets Not Being Depreciated	<u>288,797,499</u>	<u>68,874,131</u>	<u>43,880,781</u>	<u>313,790,849</u>
Capital Assets Being Depreciated				
Land improvements	16,359,206	1,239,392	-	17,598,598
Buildings and improvements	332,170,922	42,414,651	-	374,585,573
Equipment	6,213,730	1,913,877	-	8,127,607
Total Capital Assets Being Depreciated	<u>354,743,858</u>	<u>45,567,920</u>	<u>-</u>	<u>400,311,778</u>
Less Accumulated Depreciation				
Land improvements	10,631,042	3,413,597	-	14,044,639
Buildings and improvements	85,000,067	7,256,924	-	92,256,991
Equipment	1,726,453	461,057	-	2,187,510
Total Accumulated Depreciation	<u>97,357,562</u>	<u>11,131,578</u>	<u>-</u>	<u>108,489,140</u>
Governmental Activities Capital Assets, Net	<u>\$ 546,183,795</u>	<u>\$ 103,310,473</u>	<u>\$ 43,880,781</u>	<u>\$ 605,613,487</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 9,239,210
General administration	556,578
Plant services	1,113,158
Food services	222,632
Total Depreciation Expenses Governmental Activities	<u>\$ 11,131,578</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts owed to other funds. Interfund receivable and payable balances at June 30, 2008, between major and non-major governmental funds, internal service fund, and fiduciary fund are as follows:

Due To	Due From					Total Governmental Activities
	General Fund	County School Facilities Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 205,115	\$ 33,122	\$ 489,533	\$ 593	\$ 728,363
County School Facilities Fund	-	-	346,926	-	-	346,926
Non-Major Governmental Funds	32,000	-	-	-	-	32,000
Total	<u>\$ 32,000</u>	<u>\$ 205,115</u>	<u>\$ 380,048</u>	<u>\$ 489,533</u>	<u>\$ 593</u>	<u>\$ 1,107,289</u>

The balance of \$728,363 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. The remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 602,483	\$ 2,700,000	\$ 3,302,483
County School Facilities Fund	-	25,298,724	399,719	-	25,698,443
Non-Major Governmental Funds	440,099	-	-	-	440,099
Internal Service Fund	800,000	-	-	-	800,000
Total	\$ 1,240,099	\$ 25,298,724	\$ 1,002,202	\$ 2,700,000	\$ 30,241,025

The General Fund transferred to the Cafeteria Fund.	\$ 32,000
The General Fund transferred to the Special Reserve Capital Outlay Fund.	408,099
The General Fund transferred to the Internal Service Fund.	800,000
The CFD Capital Projects Fund transferred to the County School Facilities Fund.	25,298,724
The Adult Education Fund transferred to the General Fund.	93,033
The Capital Facilities Fund transferred to the County School Facilities Fund.	399,719
The Special Reserve Capital Outlay Fund transferred to the General Fund.	509,450
The Internal Service Fund transferred to the Retiree Benefit Fund.	2,700,000
Total	\$ 30,241,025

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.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, 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	\$ 4,701,973	\$ -	\$ -	\$ 323,765	\$ 19,000	\$ 5,044,738
Apportionment	342,021	-	-	-	-	342,021
Construction	-	4,494,548	3,414,550	-	-	7,909,098
Other	4,164,541	-	-	481,470	657,831	5,303,842
Total	\$ 9,208,535	\$ 4,494,548	\$ 3,414,550	\$ 805,235	\$ 676,831	\$ 18,599,699

IRVINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 22,428	\$ -	\$ 22,428
State categorical aid	82,868	-	82,868
Other local	36,170	133,088	169,258
Total	<u>\$ 141,466</u>	<u>\$ 133,088</u>	<u>\$ 274,554</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, 2007	Additions	Deductions/ Adjustments	Balance June 30, 2008	Due in One Year
Notes payable	\$ 2,880,684	\$ -	\$ 234,156	\$ 2,646,528	\$ 244,751
Accumulated vacation - net	912,818	87,274	-	1,000,092	100,000
Net OPEB obligation	-	2,527,017	-	2,527,017	-
	<u>\$ 3,793,502</u>	<u>\$ 2,614,291</u>	<u>\$ 234,156</u>	<u>\$ 6,173,637</u>	<u>\$ 344,751</u>

Payments for the notes payable are made by the General Fund. Payments for accumulated vacation and the net OPEB obligation will be paid by the fund for which the employee worked.

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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2008, are as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2009	\$ 244,751	\$ 113,724	\$ 358,475
2010	255,826	102,649	358,475
2011	267,401	91,074	358,475
2012	279,501	78,974	358,475
2013	292,148	66,327	358,475
2014-2017	1,306,901	126,999	1,433,900
Total	<u>\$ 2,646,528</u>	<u>\$ 579,747</u>	<u>\$ 3,226,275</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$1,000,092. District policy requires that accumulated vacation be utilized within a calendar year-end or six months following, unless specifically approved.

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2008, was \$4,381,100 and contributions made by the District during the year were \$1,854,083, which resulted in a net OPEB obligation of \$2,527,017. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit 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, 2008, the CFD Bonds outstanding amounted to \$381,482,154.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	270,284	-	-	115,012	385,296
Prepaid expenditures	9,159	-	-	13,440	22,599
Restricted programs	11,055,886	-	-	-	11,055,886
Total Reserved	<u>11,485,329</u>	<u>-</u>	<u>-</u>	<u>128,452</u>	<u>11,613,781</u>
Unreserved					
Designated					
Economic uncertainties	6,500,000	-	-	-	6,500,000
Other designation	11,107,587	-	-	-	11,107,587
Total Designated	<u>17,607,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,607,587</u>
Undesignated	-	50,200,091	65,091,304	24,704,024	139,995,419
Total Unreserved	<u>17,607,587</u>	<u>50,200,091</u>	<u>65,091,304</u>	<u>24,704,024</u>	<u>157,603,006</u>
Total	<u><u>\$29,092,916</u></u>	<u><u>\$50,200,091</u></u>	<u><u>\$ 65,091,304</u></u>	<u><u>\$24,832,476</u></u>	<u><u>\$169,216,787</u></u>

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

Plan Description

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. Membership of the Plan consists of 188 retirees and beneficiaries currently receiving benefits, and 1,960 active plan members.

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), the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2007-08, the District contributed \$1,854,083 to the plan, all of which was used for current premiums.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (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	\$ 4,381,100
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>4,381,100</u>
Contributions made	<u>(1,854,083)</u>
Increase in net OPEB obligation	2,527,017
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u><u>\$ 2,527,017</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 was as follows:

Year Ended June 30, 2008	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
<u>2008</u>	<u>\$ 4,381,100</u>	<u>42.32%</u>	<u>\$ 2,527,017</u>

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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. Since this is the first year of implementation, only the current year information is presented.

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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

In the July 1, 2007, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return, based on the assumed long-term return on Plan assets or employer assets. 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 remaining amortization period at July 1, 2007, was 30 years. The actuarial value of assets was not determined in this actuarial valuation.

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, Schools' Excess Liability fund (SELF). 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, 2008.

<u>Insurance Program Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Workers' Compensation Program Excess Workers' Compensation	Workers' Compensation ACE Limited	Self-insured to \$500,000 \$500,000 - \$25,000,000
Property and Liability Program Primary Coverage	Commercial Insurance Gulf/Traveler's	\$25,000 - \$1,000,000
Excess Property and Liability Program SELF	Liability Property	\$1,000,000 - \$25,000,000 \$1,000,000 - \$100,000,000

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience (see Note 14).

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2006	\$ 2,051,515	\$ 4,206,080	\$ 75,000	\$ 6,332,595
Claims and changes in estimates	14,927,000	(522,111)	-	14,404,889
Claims payments	(15,047,887)	(500,618)	-	(15,548,505)
Liability Balance, July 1, 2007	1,930,628	3,183,351	75,000	5,188,979
Claims and changes in estimates	15,436,028	1,821,527	-	17,257,555
Claims payments	(15,370,260)	(671,803)	-	(16,042,063)
Liability Balance, June 30, 2008	<u>\$ 1,996,396</u>	<u>\$ 4,333,075</u>	<u>\$ 75,000</u>	<u>\$ 6,404,471</u>
Assets available to pay claims at June 30, 2008				<u>\$22,465,617</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 contributory 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 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.

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 2007-2008 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, 2008, 2007, and 2006, were \$9,062,608, \$8,670,724, and \$7,597,765, respectively, and equal 100 percent of the required contributions for each year.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 death 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 2007-2008 was 9.306 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, 2008, 2007, and 2006, were \$3,802,935, \$3,511,347, and \$2,420,867, 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.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,026,080 (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008. 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 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*.

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008.

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, 2008.

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Bonita Canyon Modernization	\$ 150,846	09/01/09
Deerfield Modernization	102,454	09/01/09
DO Remodel	126,804	09/01/08
Eastshore ES Modernization	167,649	09/01/08
Lakeside MS Modernization	282,579	09/01/09
Northwood ES Modernization	232,246	09/01/08
PA40 MS	2,854,888	09/01/12
Portola Springs	801,205	On Hold
Santiago Hills ES Modernization	213,106	09/01/08
Sierra Vista MS Modernization	208,449	09/01/10
Stone Creek Modernization	139,552	09/01/09
Stonegate	2,855,279	09/01/09
UHS Additional Classrooms	1,859,907	12/01/08
UHS Stadium	423,705	On Hold
WHS Expansion	10,817	On Hold
WHS Modernization	509,626	04/01/10
	<u>\$ 10,939,112</u>	

IRVINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Claims Liabilities – Proprietary Funds

The District has obtained actuarial studies of its workers' compensation and health and welfare funds. The District has reported liabilities based on these reports.

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 Schools' Excess Liability Fund (SELF). 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, 2008, the District made payments of \$1,377,702 and \$751,884 to CROP and SELF, respectively.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$16,000,000 of Tax and Revenue Anticipation Notes dated July 8, 2008. The notes mature on July 30, 2009, and yield 1.62 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 1, 2009, until 100 percent of principal and interest is due on account on May 31, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		Final to Actual (Negative)
REVENUES				
Revenue limit sources	\$ 146,959,782	\$ 147,487,455	\$ 147,487,455	\$ -
Federal sources	7,990,203	9,461,094	8,684,898	(776,196)
Other State sources	40,185,621	43,474,458	48,296,447	4,821,989
Other local sources	11,371,949	18,685,198	18,685,198	-
Total Revenues¹	206,507,555	219,108,205	223,153,998	4,045,793
EXPENDITURES				
Current				
Instruction	129,129,920	148,500,522	142,627,338	5,873,184
Instruction-related activities:				
Supervision of instruction	5,018,022	7,163,322	6,695,511	467,811
Instructional library, media, and technology	4,118,442	4,625,264	4,118,143	507,121
School site administration	13,346,997	13,737,376	13,642,589	94,787
Pupil services:				
Home-to-school transportation	4,049,110	3,658,424	3,658,424	-
Food services	8,256	5,066	5,066	-
All other pupil services	10,398,708	11,198,122	10,661,382	536,740
General administration:				
Data processing	2,572,199	2,379,266	2,379,266	-
All other general administration	5,358,555	6,176,996	5,895,262	281,734
Plant services	22,873,238	22,120,100	22,055,182	64,918
Facility acquisition and construction	335,000	361,085	32,335	328,750
Ancillary services	728,532	1,886,947	1,844,370	42,577
Community services	157,911	701,540	464,572	236,968
Enterprise services	8,256	8,443	8,443	-
Debt service:				
Principal	234,156	234,156	234,156	-
Interest and other	124,319	124,319	124,319	-
Total Expenditures¹	198,461,621	222,880,948	214,446,358	8,434,590
Excess (Deficiency) of Revenues				
Over Expenditures	8,045,934	(3,772,743)	8,707,640	12,480,383
OTHER FINANCING SOURCES (USES)				
Transfers in	92,336	3,405,789	3,302,483	(103,306)
Transfers out	(2,935,449)	(1,240,099)	(1,240,099)	-
Other uses	(4,239,341)	(4,348,382)	(4,344,769)	3,613
Net Financing Sources (Uses)	(7,082,454)	(2,182,692)	(2,282,385)	(99,693)
NET CHANGE IN FUND BALANCES	963,480	(5,955,435)	6,425,255	12,380,690
Fund Balance - Beginning	22,667,661	22,667,661	22,667,661	-
Fund Balance - Ending	\$ 23,631,141	\$ 16,712,226	\$ 29,092,916	\$ 12,380,690

¹ On behalf payments of \$5,026,080 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

IRVINE UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (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, 2008	\$ -	\$ 37,807,200	\$ 37,807,200	\$ -	\$ 140,660,000	27%

SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education (CDE):			
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,509,112
NCLB: Title I, Part G, Advanced Placement (AP)			
Fee Reimbursement Program	84.330	14831	576
NCLB: Title II, Part A, Improving Teacher Quality	84.367	14341	515,460
Title III - English Language Acquisition Grants:			
NCLB: Title III, Immigrant Education Program	84.365	14346	216,337
NCLB: Title III, Limited English Proficient (LEP) Student Program	84.365	10084	299,060
NCLB: Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	14347	59,583
NCLB: Title V, Part A, Innovative Education Strategies	84.298A	14354	19,478
Special Education IDEA Cluster:			
IDEA: Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,501,427
IDEA: Preschool Grants, Part B, Section 619	84.173	13430	123,060
IDEA: Preschool Local Entitlements, Part B, Section 611	84.027A	13682	287,123
IDEA: Preschool Staff Development, Part B, Section 619	84.173A	13431	1,762
Total Special Education IDEA Cluster			<u>3,913,372</u>
IDEA: Improving Special Education Systems	84.323	14577	12,614
IDEA: Early Intervention Grants, Part C	84.181	23761	28,621
Safe Schools and Healthy Students	84.184L	N/A	438,692
Readiness and Emergency Management for Schools	84.184E	N/A	80,491
Passed through the California Department of Rehabilitation:			
Workability II, Transitions Partnership	84.126A	10006	345,842
Workability II, Bridges	84.126A	10006	89,088
Vocational Programs: Voc & Appl Tech Secondary II C, Section 131 (Carl Perkins Act)	84.048	13924	84,690
Passed through Irvine Valley College:			
Vocational Programs: Voc & Appl Tech Prep Programs, Title II, Section 203 (Carl Perkins Act)	84.243	13929	18,449
Total U.S. Department of Education			<u>7,631,465</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education:			
Child Nutrition Cluster :			
National School Lunch Program	10.555	13391	592,565
Basic Breakfast	10.553	13390	44,912
Especially Needy Breakfast	10.553	13390	21,806
Commodities	10.555	N/A	161,273
Total Child Nutrition Cluster			<u>820,556</u>
Child Care Food Program	10.558	13393	78,900
Total U.S. Department of Agriculture			<u>899,456</u>

N/A – Directly Funded

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Passed through the California Department of Education:			
Medi-Cal Cluster:			
Medi-Cal Billing Option	93.778	10013	\$ 248,388
Medi-Cal Administrative Activities (MAA)	93.778	10060	300,595
Total Medi-Cal Cluster			<u>548,983</u>
Child Care and Development Fund Cluster:			
Federal General Child Care, Center Based	93.596	13609	435,742
Child Development Instructional Materials	93.575	N/A	3,252
School-Age Child Care Resource Contracts	93.575	13941	2,275
Total Child Development Cluster			<u>441,269</u>
Head Start	93.600	10016	611,742
Drug Free Communities Support Program	93.276	N/A	90,738
Drug Free Communities Support Mentoring Program	93.276	N/A	57,046
Total U.S. Department of Health and Human Services			<u>1,749,778</u>
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act (WIA)	17.259	10055	356,668
Total U.S. Department of Labor			<u>356,668</u>
Total Federal Programs			<u><u>\$ 10,637,367</u></u>

N/A – Directly Funded

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

**SUMMARY OF THE DRUG FREE SUPPORT PROGRAM GRANTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Drug Free Communities Support Program Grant No. <u>5H79SP011230-04</u> July 1, 2007 <u>June 30, 2008</u>	Drug Free Communities Support Mentoring Program Grant No. <u>1H79SP014544-01</u> July 1, 2007 <u>June 30, 2008</u>
REVENUES	<u>\$ 90,738</u>	<u>\$ 57,046</u>
EXPENDITURES		
Personal services	\$ 21,029	\$ 31,560
Operating expenses	<u>69,709</u>	<u>25,486</u>
	<u>\$ 90,738</u>	<u>\$ 57,046</u>

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

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>
Carolyn McInerney	President	2008
Gavin Huntley-Fenner	Clerk	2010
Michael Parham	Member	2008
Sue Kuwabara	Member	2008
Sharon Wallin	Member	2010

ADMINISTRATION

Gwen E. Gross, Ph. D	District Superintendent
Vernon Medeiros, Ed.D.	Deputy Superintendent, 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, 2008**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,525	1,536
First through third	5,219	5,247
Fourth through sixth	5,710	5,722
Seventh and eighth	3,926	3,935
Home and hospital	5	6
Special education	487	486
Total Elementary	16,872	16,932
SECONDARY		
Regular classes	8,125	8,079
Continuation education	197	201
Home and hospital	12	13
Special education	265	268
Total Secondary	8,599	8,561
Total K-12	25,471	25,493
REGIONAL OCCUPATIONAL PROGRAM	334	361
CLASSES FOR ADULTS		
Not concurrently enrolled	363	377
Total Classes for Adults	363	377
Grand Total	26,168	26,231
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		198,815
High school		153,760
Total Hours		352,575

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2008**

Grade Level	1982-83	1986-87	2007-2008	Number of days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	34,320	36,000	36,000	180	N/A	Complied
Grades 1 - 3	48,917	50,400				
Grade 1			50,400	180	N/A	Complied
Grade 2			50,400	180	N/A	Complied
Grade 3			50,400	180	N/A	Complied
Grades 4 - 8	52,754	54,000				
Grade 4			56,100	180	N/A	Complied
Grade 5			56,100	180	N/A	Complied
Grade 6			56,100	180	N/A	Complied
Grade 7			56,100	180	N/A	Complied
Grade 8			56,100	180	N/A	Complied
Grades 9 - 12	61,600	64,800				
Grade 9			64,890	180	N/A	Complied
Grade 10			64,890	180	N/A	Complied
Grade 11			64,890	180	N/A	Complied
Grade 12			64,890	180	N/A	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, 2008**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2008.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget) 2009 ¹	2008 ³	2007 ³	2006 ³
GENERAL FUND				
Revenues	\$ 208,170,136	\$ 218,127,918	\$ 214,018,904	\$ 190,601,888
Other sources and transfers in	595,000	3,302,483	88,499	101,780
Total Revenues and Other Sources	208,765,136	221,430,401	214,107,403	190,703,668
Expenditures	211,794,719	209,420,278	204,306,244	181,551,205
Other uses and transfers out	1,714,697	5,584,868	7,036,430	9,158,306
Total Expenditures and Other Uses	213,509,416	215,005,146	211,342,674	190,709,511
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,744,280)	\$ 6,425,255	\$ 2,764,729	\$ (5,843)
ENDING FUND BALANCE	\$ 24,348,636	\$ 29,092,916	\$ 22,667,661	\$ 19,902,932
AVAILABLE RESERVES²	\$ 13,383,375	\$ 6,500,000	\$ 6,691,159	\$ 5,721,285
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	6.27%	3.02%	3.17%	3.00%
LONG-TERM OBLIGATIONS	N/A	\$ 6,173,637	\$ 3,793,502	\$ 3,993,753
K-12 AVERAGE DAILY ATTENDANCE AT P-2⁴	25,471	25,471	25,197	24,825

The General Fund balance has increased by \$9,189,984 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$4,744,280 (16 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 two of the past three years but anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have increased by \$2,179,884 over the past two years.

Average daily attendance has increased by 646 over the past two years. No additional growth of ADA is anticipated during fiscal year 2008-2009.

1 Budget 2009 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

3 On-behalf payments of \$5,026,080, \$4,747,353, and \$4,159,892 have been excluded from this schedule for fiscal years ending June 30, 2008, 2007, and 2006, respectively.

4 Excludes ROP and Adult ADA.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2008

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Irvine Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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.

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 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.

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 requirements, 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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

Excess Sick Leave

This schedule provides information required by the California K-12 Audit Guide for Local Educational Agencies, for excess sick leave authorized or accrued for members of the California State Teachers' Retirement System (CalSTRS).

SUPPLEMENTARY INFORMATION - UNAUDITED

IRVINE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2008**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 403,187	\$ 183,874	\$ 418,833
Receivables	148,635	285,999	389,697
Due from other funds	-	-	32,000
Prepaid expenses	-	-	13,440
Stores inventories	-	-	115,012
Total Assets	\$ 551,822	\$ 469,873	\$ 968,982
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 28,253	\$ 128,144	\$ 569,858
Due to other funds	46,654	168,185	269,024
Deferred revenue	133,088	-	-
Total Liabilities	207,995	296,329	838,882
FUND BALANCES			
Reserved for:			
Stores inventories	-	-	115,012
Prepaid expenditures	-	-	13,440
Unreserved:			
Undesignated, reported in:			
Special revenue funds	343,827	173,544	1,648
Capital projects funds	-	-	-
Total Fund Balances	343,827	173,544	130,100
Total Liabilities and Fund Balances	\$ 551,822	\$ 469,873	\$ 968,982

See accompanying note to supplementary information - unaudited.

Deferred Maintenance Fund	Retiree Benefit Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ 1,466,370	\$ -	\$ 10,990,684	\$ 11,662,083	\$ 25,125,031
3,525	-	119,835	27,158	974,849
-	-	-	-	32,000
-	-	-	-	13,440
-	-	-	-	115,012
<u>\$ 1,469,895</u>	<u>\$ -</u>	<u>\$ 11,110,519</u>	<u>\$ 11,689,241</u>	<u>\$ 26,260,332</u>
\$ 44,297	\$ -	\$ 10,522	\$ 24,161	\$ 805,235
-	-	-	5,670	489,533
-	-	-	-	133,088
<u>44,297</u>	<u>-</u>	<u>10,522</u>	<u>29,831</u>	<u>1,427,856</u>
-	-	-	-	115,012
-	-	-	-	13,440
1,425,598	-	-	-	1,944,617
-	-	11,099,997	11,659,410	22,759,407
<u>1,425,598</u>	<u>-</u>	<u>11,099,997</u>	<u>11,659,410</u>	<u>24,832,476</u>
<u>\$ 1,469,895</u>	<u>\$ -</u>	<u>\$ 11,110,519</u>	<u>\$ 11,689,241</u>	<u>\$ 26,260,332</u>

IRVINE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ -	\$ 1,155,086	\$ 820,556
Other State sources	964,387	178,160	46,830
Other local sources	278,146	71,076	4,129,930
Total Revenues	<u>1,242,533</u>	<u>1,404,322</u>	<u>4,997,316</u>
EXPENDITURES			
Current			
Instruction	567,913	895,475	-
Instruction-related activities:			
Supervision of instruction	-	326,279	-
Instructional library, media, and technology	13,187	-	-
School site administration	443,757	4,910	-
Pupil services:			
Food services	-	-	4,831,769
All other pupil services	-	13,883	-
General administration:			
All other general administration	44,863	61,399	216,365
Plant services	7,472	41,179	546
Facility acquisition and construction	-	-	-
Enterprise services	-	-	-
Total Expenditures	<u>1,077,192</u>	<u>1,343,125</u>	<u>5,048,680</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>165,341</u>	<u>61,197</u>	<u>(51,364)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	32,000
Other sources	-	-	-
Transfers out	(93,033)	-	-
Net Financing Sources (Uses)	<u>(93,033)</u>	<u>-</u>	<u>32,000</u>
NET CHANGE IN FUND BALANCES	72,308	61,197	(19,364)
Fund Balance - Beginning	<u>271,519</u>	<u>112,347</u>	<u>149,464</u>
Fund Balance - Ending	<u>\$ 343,827</u>	<u>\$ 173,544</u>	<u>\$ 130,100</u>

See accompanying note to supplementary information - unaudited.

Deferred Maintenance Fund	Retiree Benefit Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,975,642
994,353	-	-	-	2,183,730
57,709	(3,560,848)	2,740,086	499,131	4,215,230
<u>1,052,062</u>	<u>(3,560,848)</u>	<u>2,740,086</u>	<u>499,131</u>	<u>8,374,602</u>
-	-	-	-	1,463,388
-	-	-	-	326,279
-	-	-	-	13,187
-	-	-	-	448,667
-	-	-	-	4,831,769
-	-	-	-	13,883
-	-	-	-	322,627
299,030	-	145,845	737,505	1,231,577
932,181	-	63,922	424,214	1,420,317
-	3,219	-	-	3,219
<u>1,231,211</u>	<u>3,219</u>	<u>209,767</u>	<u>1,161,719</u>	<u>10,074,913</u>
<u>(179,149)</u>	<u>(3,564,067)</u>	<u>2,530,319</u>	<u>(662,588)</u>	<u>(1,700,311)</u>
-	-	-	408,099	440,099
-	-	-	4,110,000	4,110,000
-	-	(399,719)	(509,450)	(1,002,202)
-	-	(399,719)	4,008,649	3,547,897
(179,149)	(3,564,067)	2,130,600	3,346,061	1,847,586
1,604,747	3,564,067	8,969,397	8,313,349	22,984,890
<u>\$ 1,425,598</u>	<u>\$ -</u>	<u>\$ 11,099,997</u>	<u>\$ 11,659,410</u>	<u>\$ 24,832,476</u>

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

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

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

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, 2008, which collectively comprise Irvine Unified School District's basic financial statements and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items 2008-1 through 2008-3.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 2, 2008.

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

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.


Rancho Cucamonga, California
December 2, 2008



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO 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 the compliance of Irvine Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. 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 requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Irvine Unified School District's internal control over compliance.

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

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

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

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

Vaurinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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, 2008, and have issued our report thereon dated December 2, 2008. 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 2007-08*, 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.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Irvine Unified School District's management. 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:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	No, see below
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable
Community day schools	9	Not applicable
Morgan-Hart Class Size Reduction	7	Yes
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes

	Procedures in Audit Guide	Procedures Performed
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 Construction Funds:		
School District bonds	3	Not applicable
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable
Class Size Reduction Program (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

We did not perform testing for the Regional Occupation Program (ROP) because the ROP's average daily attendance is the responsibility of the ROP's auditor.

Based on our audit, we found that for the items tested, the Irvine Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Irvine Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Irvine Unified School District's compliance with the State laws and regulations referred to 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, 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.

Vaurine & Trime, Day & Co., LLP
Rancho Cucamonga, California
December 2, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

IRVINE UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<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 Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.365</u>	<u>Title III - English Language Acquisition Grants</u>
<u>84.027, 84.027A, 84.173</u> <u>and 84.173A</u>	<u>Special Education Cluster</u>
<u>10.553 and 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.596 and 93.575</u>	<u>Child Care and Development Fund Cluster</u>
<u>93.600</u>	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 319,121</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

2008-1 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 accounts (ASB).

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 \$1.8 million at June 30, 2008.

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 ASBs funds.

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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 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 agrees with the recommendation of the auditor and will provide additional training to District staff to establish a review and oversight of the ASB accounting records. The District will request and receive a separate bank statement and review deposits and checks. A regular internal audit will be conducted at the high school sites to address this finding.

2008-2 30000

Cafeteria Fund

Criteria or Specific Requirements

The principal role of each fund of the District is to demonstrate fiscal accountability.

Condition

The Cafeteria Fund continues to incur operating deficits. The amount of support needed from the General Fund over the past five years is \$32,000, \$50,000, \$300,000, \$200,000, and \$300,000, respectively.

Questioned Costs

There were no questioned costs during the current fiscal year.

Context

The Cafeteria Fund continues to encroach on the General Fund to meet its current operating expenditures. The Cafeteria Fund incurred an operating deficit of approximately \$19 thousand during 2007-2008. In addition, the General Fund transferred \$32,000 to the Cafeteria Fund.

Effect

The amount of support needed from the General Fund will continue until there is improvement in the financial operations of the cafeteria.

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Cause

The condition identified materialized as a result of expenditures being greater than revenues in the Cafeteria Fund.

Recommendation

The District should review the operating budget of the Cafeteria to determine if there are potential cost savings. In addition, the management of the Cafeteria Fund should review and analyze on a monthly basis the total operating costs to budget in order to stay abreast of any unexpected costs above and beyond budgeted targets.

District Response

The District continues to monitor the operating deficit of the Cafeteria Fund and has reduced the deficit from \$155 thousand in fiscal year 2006-07 to \$14 thousand in fiscal year 2007-08. Lunch prices have been increased for 2008-09 and the cafeteria staff continues to look to ways of saving money and running a more efficient operation.

2008-3 30000

Cafeteria - All Sites

Criteria or Specific Requirements

School Districts which participate in the National School Lunch Program are mandated to not allow competitive food sales during meal periods which serve subsidized food from the Federal government. The Child Nutrition Manual states that competitive foods cannot be made available during any designated meal period (Part 210, Subpart 210.11 Section C) of Child Nutrition Manual regulations and policies.

Condition

Vending machines and food sales occur during breakfast, nutrition break, and lunch break at school locations.

Questioned Costs

There are no known questioned costs during the current fiscal year. Since sales activities could not be ascertained from the student clubs for the various vending machines, it is not clear as to a specific dollar amount effect on the Cafeteria Fund.

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Context

All high schools in the District continue to allow the selling of competitive food sales during breakfast and lunch periods. Vending machines are selling bottled waters, fruit juices, baked chips, granola bars, sandwiches, fries, chicken nuggets, and other food choices, which are competitive in nature. An inventory of machines at all four campus locations was observed. In each case, all four high school vending machines are available for students to purchase before, during, and after school hours.

Effect

It appears that sales are being taken away from the Cafeteria Fund and are being recognized by various student groups throughout the District. There does not appear to be communication to the management of the Cafeteria locations when food sales are allowed to take place. Since the Cafeteria Fund has encroached on the General Fund for the past five fiscal years, the effect appears to be contributing to the financial performance of the Cafeteria Fund. Sales activities could not be ascertained from the student clubs for the various vending machines and we were unable to determine the specific dollar amount effect on the Cafeteria Fund.

Cause

The condition identified materialized as a result of vending machines and food sales occurring during breakfast, nutrition break, and lunch break at school locations.

Recommendation

The District should immediately address the competitive sales that are occurring throughout the District. The District runs the risk of part or all of their National School Lunch Program reimbursement to be withdrawn. Violations of the (Part 210, subpart 210.11 section C) of the Child Nutrition Manual regulations and policies expose the District to additional penalties if not addressed immediately. Communication to all site administrators should outline the potential ramifications of continuing to allow competitive sales on their campus locations. Communication with various ASB and other student group organizations should take place as soon as possible in order to facilitate necessary changes in order to comply.

District Response

Competitive food sales continue to be an issue at the District high schools. This item has been addressed numerous times in past years with both the high school principals and related staff. The most recent finding included in this audit was immediately addressed with the Assistant Superintendent of Education Services. The potential loss of Federal revenue was addressed and a presentation at the next high school principal's meeting will be given to address this finding. The District will provide a plan of action and will work with the high school sites to ensure that competitive food sales do not occur in the future.

IRVINE UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

IRVINE UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

IRVINE UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

ASSOCIATED STUDENT BODY

All Sites

2007-1 30000

Finding

There appears to be a lack of separation of duties at the ASB sites. The ASB bookkeepers appear to have the majority of control over several important internal control systems including, but not limited to, the cash receipts functions, reconciliation of bank accounts, preparation of checks, and the preparation of the financial statements.

Recommendation

The District should work with the ASB sites to ensure that appropriate separation of duties is maintained throughout the internal control system. Policies and procedures should be implemented to provide for an appropriate checks and balances within the internal control structure of the ASBs at each site.

Current Status

Not implemented. See current year financial statement finding 2008-1.

CAFETERIA FUND

2007-2 30000

Finding

The Cafeteria Fund continues to incur operating deficits. The amount of support needed from the General Fund over the past four years was \$50,000, \$300,000, \$200,000, and \$300,000, respectively.

Recommendation

The District has continued to monitor the financial condition of the Cafeteria, including implementation of the Lunch Box System in the 2007-2008 fiscal year. However, the Cafeteria still continues to operate at a deficit. The District should continue to monitor the financial activities of the Cafeteria Fund in order to try and develop ideas to improve the financial condition of the Cafeteria Fund.

IRVINE UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Current Status

Improved. See current year financial statement finding 2008-2.

CAFETERIA

All Sites

2007-3 30000

Finding

The operation of vending machines and food sales by other organizations during breakfast, nutrition break, and lunch time are occurring throughout all school sites in the District. The Child Nutrition Manual states that competitive foods cannot be made available during designated meal period.

Recommendation

The District should ensure that the operation of vending machines and food sales from other organizations on school sites do not occur during designated meal periods.

Current Status

Not implemented. See current year financial statement finding 2008-3.



Governing Board
Irvine Unified School District
Irvine, California

In planning and performing our audit of the financial statements of Irvine Unified School District for the year ended June 30, 2008, 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 an opportunity 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 2, 2008, on the financial statements of Irvine Unified School District.

INTERNAL CONTROLS

South Lake Middle School, Irvine High School, and Woodbridge High School

Revenue Potential Forms

Finding

Revenue potential forms are not being properly completed for fundraising activities. The site does not complete the reconciliation of expected income and expenses to actual income and expenses received.

Recommendation

The site should complete the revenue potential forms in its entirety. Revenue potential forms are used to document and control fundraising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Woodbridge High School

Vending Machine Sales

Finding

Vending machine sales are not being reconciled to the inventory of supplies. The custodian is responsible for making the orders, filling the machines, and delivering the money to the ASB office. The ASB office is not reconciling the money received from the custodian to the amount of inventory purchased.

Recommendation

Sales should be reconciled to inventory on a routine basis to ensure that all monies earned are being turned in and properly recorded and deposited into the bank. Oversight and periodic review of inventory on hand should be performed by a second party in order to provide for appropriate segregation of duties.

Lakeside Middle School, Rancho San Joaquin Middle School, and Sierra Vista Middle School

Cash Receipting

Finding

It was noted that the school site does not issue prenumbered receipts for the receipt of ASB funds. The site utilizes a District prepared form which does not contain any sort of control numbers on them. Without this information on the receipts, we were not able to determine the completeness of deposits.

Recommendation

The use of prenumbered receipts is essential for proper documentation in order to determine that all funds being turned into the ASB actually get deposited into the ASB's bank account intact.

Irvine High School, Northwood High School, University High School, Woodbridge High School, Rancho San Joaquin Middle School, Southlake Middle School, Sierra Vista Middle School, and Venado Middle School

Disbursements

Finding

It was noted that expenditures were not being approved by the ASB prior to being incurred. Some of the pre-authorization forms were dated after the invoice date or on the same date of the invoice indicating that the purchases were made prior to receiving the proper authorization.

Recommendation

ASB expenditures should have pre-approval of the student body and student body advisor prior to the commitment of ASB funds. Only after such approval has been obtained, should a vendor be contracted for goods and/or services.

Lakeside Middle School, and Rancho San Joaquin Middle School

Ticket Log

Finding

The site does not have any control procedures over the distribution of tickets for school dances nor does it perform a reconciliation of the tickets sold against the revenue generated and turned into the ASB clerk. Currently the tickets for these events are printed by the District Office's Print Shop department without any pre-numbering on them, making tracking difficult.

Recommendation

For all ticketed events, the site should perform a ticket sales recap which will reconcile the number of tickets printed against the revenue turned in for the event. The District should provide the site with a control number on each ticket in order for the site to prepare reconciliation with the revenue collected to the number of tickets sold for the event.

Sierra Vista Middle School, Venado Middle School, Lakeside Middle School, Southlake Middle School, and Rancho San Joaquin Middle School

Bank Reconciliations/Financial Reporting

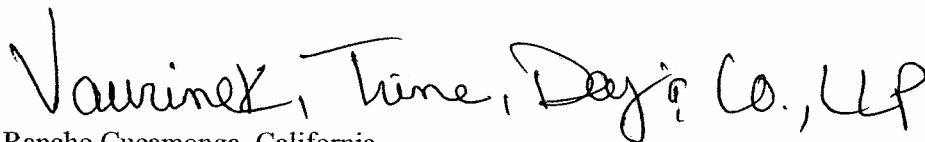
Finding

It was noted that the site had incorrectly prepared its bank reconciliations for the year which contributed to inaccurate financial reporting at year-end. It was also noted that the client prepared financial statements were not mathematically correct with numerous amounts recognized incorrectly.

Recommendation

Financial statements should be reviewed monthly by an independent person to assist in accuracy. Bank reconciliations should be reviewed by an individual independent of the preparer to assist in the identification of mathematical errors.

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



Rancho Cucamonga, California
December 2, 2008