

**REEF-SUNSET
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

REEF-SUNSET UNIFIED SCHOOL DISTRICT

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JUNE 30, 2012

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Reef-Sunset Unified School District
Avenal, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Reef-Sunset Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Reef-Sunset Unified School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012, 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 11, budgetary comparison information and other postemployment benefits information on pages 48 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Vannest, Eric, Day & Co., LLP

Fresno, California
December 13, 2012



Reef - Sunset Unified School District

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David East, Ed.D., Superintendent

BOARD OF TRUSTEES: Larry Bunch, Gail Monohon, Jose Barrera, Ricardo Verdugo, William (Bill) Hatcher

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The Reef-Sunset Unified School District's (RSUSD) goal is to provide, in an atmosphere of care and concern, an opportunity for every student to recognize and fully develop his/her particular academic, technical, vocational, physical and social skills. RSUSD students graduate prepared to succeed in tomorrow's world.

The Management Discussion and Analysis of RSUSD District's financial statements provide an overall review of the District's financial activities for the fiscal year ended June 30, 2012. This analysis will look at the RSUSD's financial performance as a whole. The management discussion and analysis should be reviewed in conjunction with the auditor's transmittal letter, notes to the basic financial statements and the basic governmental wide financial statements to enhance the understanding of the District's financial performance.

The Reef-Sunset Unified School District is a small rural school district offering instruction to students from preschool through twelfth grade including programs for vocational and adult education, Primary Community Day and Secondary Community Day Schools and Continuation School programs. During the 2011-12 school year, the District operated three traditional elementary schools, one traditional middle school, one traditional high school, one primary community day school, one secondary community day school, two continuation high schools, and an extensive adult education program on the traditional September through June schedule, for the instruction of approximately 2,645 students and adults.

USING THE ANNUAL FINANCIAL REPORT

- This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Reef-Sunset Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Management Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FINANCIAL HIGHLIGHTS

- The RSUSD's Government-wide Statement of Net Assets illustrates total net assets of \$11.9 million, the result of assets of \$24.3 million less liabilities of \$12.4 million for the year ending June 30, 2012, compared to total net assets of \$14.1 million for the year ending June 30, 2011.
- General Revenues accounted for \$17.9 million in revenue or 69% of all revenues for the year ending June 30, 2011, compared to \$17.6 million in revenue or 72% of all revenues for the year ending June 30, 2012. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$8.1 million or 31% of total revenues of \$26 million for the year ending June 30, 2011, compared to \$7.0 million or 28% of total revenues of \$24.6 million for the year ending June 30, 2012.
- The District had \$25.2 million in expenses related to governmental activities for the year ending June 30, 2011, and \$26.8 million in expenses related to governmental activities for the year ending June 30, 2012.
- The General Fund balance reported a decrease of \$1.0 million to \$6.8 million. The District ended the fiscal year above the State recommended available reserves percentage of 3.0 percent with a reserve of 11.3 percent.

REPORTING THE DISTRICT AS A WHOLE

- THE STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Assets and the Statement of Activities" reports information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors, such as property tax base, current property tax laws, student enrollment, and facility conditions in arriving at their conclusion regarding the overall health of the District.

- 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 stature, while many other funds are established by the District to help manage money for particular purposes and compliance with various provision. The District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

- GOVERNMENTAL FUNDS

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's program. The Relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the notes to the financial statements.

Governmental funds include most of the major funds of the District. A more detailed discussion of Governmental funds follows.

- FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Associated Student Body funds and a scholarship trust fund for scholarships.

The Reef-Sunset Unified School District is the trustee, or fiduciary, for its student activity funds. All of the School 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 School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

- NOTES TO THE FINANCIAL STATEMENTS

The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

- THE DISTRICT AS A WHOLE

The "Statement of Net Assets" provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for the past two fiscal years.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Table 1. Net Assets

(Dollar amounts in millions)	Governmental Activities		
	2012	2011	Variance
Current and other assets	\$ 12.6	\$ 13.6	\$ (1.0)
Capital assets	11.7	13.1	(1.4)
Total Assets	24.3	26.7	(2.4)
Current liabilities	1.2	1.0	0.2
Long-term obligations	11.2	11.6	(0.4)
Total Liabilities	12.4	12.6	(0.2)
Net assets			
Invested in capital assets, net of related debt	1.7	2.7	(1.0)
Restricted	5.3	6.6	(1.3)
Unrestricted	4.9	4.8	0.1
Total Net Assets	\$ 11.9	\$ 14.1	\$ (2.2)

The results of the past two years operations for RSUSD as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement, and rearranges it slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Table 2. Changes in Net Assets

(Dollar amounts in millions)	Governmental Activities		
	2012	2011	Variance
Revenues			
Program revenues			
Charges for services	\$ - ¹	\$ - ¹	\$ -
Operating grants and contributions	7.0	8.1	(1.1)
General revenues:			
State & Federal unrestricted	15.0	14.5	0.5
Property taxes	2.1	2.1	-
Other general revenues	0.5	1.3	(0.8)
Total Revenues	<u>24.6</u>	<u>26.0</u>	<u>(1.4)</u>
Expenses			
Instruction related	17.0	16.4	0.6
Student support services	3.1	2.9	0.2
Administration	2.7	2.5	0.2
Plant services	3.3	2.0	1.3
Other	0.7	1.4	(0.7)
Total Expenses	<u>26.8</u>	<u>25.2</u>	<u>1.6</u>
Change in Net Assets	<u>\$ (2.2)</u>	<u>\$ 0.8</u>	<u>\$ (3.0)</u>

¹ Ending balance was less than \$50,000.

In Table 3, we have presented the cost and net cost of each of the District’s largest functions – instruction related, student support services, administration, plant services, and other services. 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. Net Cost of Governmental Activities

(Dollar amounts in millions)	Total Cost of Services	Net Cost of Services
Instruction related	\$ 17.0	\$ 12.8
Student support services	3.1	0.9
Administration	2.7	2.3
Plant services	3.3	3.3
Other	0.7	0.5
Total	<u>\$ 26.8</u>	<u>\$ 19.8</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

GOVERNMENTAL FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$11.17 million, as compared to \$12.32 million last year, which is a decrease of \$1.15 million (Table 4).

Table 4. Governmental District Funds

(Amounts in millions)	Fund Balance	
	June 30, 2012	June 30, 2011
General	6.84	7.82
Adult Education	0.02	0.05
Child Development	- ¹	- ¹
Cafeteria	0.55	0.65
Deferred Maintenance	0.28	0.25
Pupil Transportation	0.26	0.22
Building	0.10	0.29
Capital Facilities	0.41	0.37
Special Reserve Capital Outlay	0.52	0.52
Bond Interest and Redemption	0.81	0.83
Debt Service	1.38	1.32
Total	11.17	12.32

¹ Ending balance was less than \$5,000.

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. After updating of the forecast for changes in revenue and expenditure assumptions, the operating budget begins at the school level. Each school in the District receives a per pupil allocation augmented with resources for special education students. The departments provide input to the Business Office for their budget needs. The site and department budgets are reviewed monthly to ensure management becomes aware of any significant variations during the year.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2012

- GENERAL FUND BUDGET VARIATIONS

In June of each year, a Budget is adopted by the School District’s Board of Trustees, effective July 1 through June 30. The Budget is based on year-ending projections from the previous year’s budget. As the school year progresses, the Budget is revised and updated, with numerous financial reports made public outlining the revisions. Finally, in August of the following year, the books are closed for the July 1 – June 30 fiscal year, and the results are audited, yielding actual final numbers.

There are several reasons for Budget revisions. Most notable are any salary increases granted by the Board of Trustees for district employees for the original budget does not presume salary increases. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections would also yield budget revisions.

The implementation of new instructional or categorical programs can also effect budget projections. For the School District, the increased emphasis on closing the achievement gap for all of our students will push forward several academic-focused programs that will impact expenditures in personnel, instructional materials, outside services and supplies.

The District is currently faced with the worsening fiscal condition of the State of California and the potential impact of this problem on public education.

The State and Federal budget issues have an impact on the District’s budget. As revenues from these two sources change, so do District revenues, since 94% of District revenues come from State and Federal revenue streams.

The final actual numbers of the General Fund that will be certified by February of the next year will be the reflection of the culmination of these several factors.

The final budget figures for the general fund anticipated a \$0.7 million decrease but the actual year-end figures showed a decrease in fund balance of \$0.98 million for a net difference of \$0.24 million and can be summarized as follows:

\$ 386,336	Favorable variance in total revenue
(332,189)	Unfavorable variance in total expenditures
<u>(297,552)</u>	Unfavorable variance in other sources and uses
<u>\$ (243,405)</u>	Difference from anticipated change in fund balance

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

For the prior fiscal year, the District had \$13.1 million invested in land, buildings, equipment, and construction in progress (net of depreciation). For the current year, the total net fixed assets were \$11.7 million (net of depreciation). Table 5 shows the balances for the past two fiscal years.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

**Table 5. Changes in Net Assets
(Net of Depreciation)**

(Dollar amounts in millions)	School District Activities		
	2012	2011	Variance
Land	\$ 1.6	\$ 1.6	\$ -
Buildings and improvements	9.6	11.2	(1.6)
Equipment	0.5	0.3	0.2
Total	\$ 11.7	\$ 13.1	\$ (1.4)

LONG-TERM OBLIGATIONS

At June 30, 2012, the District had \$11.2 million debt outstanding, compared to \$11.6 million in debt outstanding at June 30, 2011. Table 6 summarizes our obligations.

Table 6. Outstanding Debt at Year-end

(Dollar amounts in millions)	School District Activities		
	2012	2011	Variance
General obligation bonds	\$ 6.9	\$ 7.4	\$ (0.5)
Certificates of participation	1.3	1.3	-
QZAB	1.7	1.7	-
Capitalized lease obligations	0.2	0.3	(0.1)
Other	1.1	0.9	0.2
Total	\$ 11.2	\$ 11.6	\$ (0.4)

The District's general obligation bond S&P rating at the time of their last issuance was "Aaa".

FOR THE FUTURE

The District's system of budgeting and internal controls is well regarded and it will take all of the District's financial abilities to meet the challenges of the future.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Michelle Cutillo, Business Manager, 205 N. Park Ave, Avenal CA. 93204 (559) 386-9083 ext. 1017.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	\$ 5,576,780
Receivables	6,763,001
Prepaid expenses	13,338
Deferred charges	200,951
Stores inventories	15,646
Nondepreciable capital assets	1,672,126
Capital assets being depreciated	21,761,511
Accumulated depreciation	(11,709,345)
Total Assets	<u>24,294,008</u>
LIABILITIES	
Accounts payable	1,180,901
Deferred revenue	20,617
Current portion of long-term obligations	684,784
Noncurrent portion of long-term obligations	10,505,537
Total Liabilities	<u>12,391,839</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,733,270
Restricted for:	
Debt service	2,189,527
Capital projects	406,072
Educational programs	2,161,903
Other activities	552,745
Unrestricted	4,858,652
Total Net Assets	<u>\$ 11,902,169</u>

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 13,683,513	\$ 5,796	\$ 2,877,774
Instruction-related activities:			
Supervision of instruction	1,343,162	674	1,020,838
Instructional library, media, and technology	247,892	83	171,349
School site administration	1,753,069	916	135,649
Pupil services:			
Home-to-school transportation	341,559	-	178,267
Food services	1,743,899	7,428	1,727,386
All other pupil services	993,914	-	312,201
Administration:			
Data processing	432,719	1,055	38,331
All other administration	2,277,406	572	376,210
Plant services	3,334,300	518	17,759
Ancillary services	39,134	-	-
Community services	85,096	640	9,240
Interest on long-term obligations	420,236	-	-
Other outgo	102,952	-	103,015
Total Governmental Activities	\$ 26,798,851	\$ 17,682	\$ 6,968,019

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- 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**

**Governmental
Activities**

\$ (10,799,943)

(321,650)

(76,460)

(1,616,504)

(163,292)

(9,085)

(681,713)

(393,333)

(1,900,624)

(3,316,023)

(39,134)

(75,216)

(420,236)

63

(19,813,150)

1,218,264

839,603

12,428

15,026,062

139,387

387,142

17,622,886

(2,190,264)

14,092,433

\$ 11,902,169

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Adult Education Fund	Debt Service Fund
ASSETS			
Deposits and investments	\$ 1,668,854	\$ 23,176	\$ 1,378,189
Receivables	6,060,111	175,935	-
Due from other funds	187,000	-	-
Prepaid expenditures	13,338	-	-
Stores inventories	-	-	-
Total Assets	\$ 7,929,303	\$ 199,111	\$ 1,378,189
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,064,892	\$ 2,295	\$ -
Due to other funds	-	175,000	-
Deferred revenue	20,617	-	-
Total Liabilities	1,085,509	177,295	-
Fund Balances:			
Nonspendable	21,338	-	-
Restricted	1,904,918	-	1,378,189
Committed	-	21,816	-
Assigned	2,479,058	-	-
Unassigned	2,438,480	-	-
Total Fund Balances	6,843,794	21,816	1,378,189
Total Liabilities and Fund Balances	\$ 7,929,303	\$ 199,111	\$ 1,378,189

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 2,506,561	\$ 5,576,780
526,955	6,763,001
-	187,000
-	13,338
15,646	15,646
<u>\$ 3,049,162</u>	<u>\$ 12,555,765</u>
\$ 113,714	\$ 1,180,901
12,000	187,000
-	20,617
<u>125,714</u>	<u>1,388,518</u>
15,786	37,124
2,520,538	5,803,645
278,767	300,583
108,357	2,587,415
-	2,438,480
<u>2,923,448</u>	<u>11,167,247</u>
<u>\$ 3,049,162</u>	<u>\$ 12,555,765</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds		\$ 11,167,247
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	\$ 23,433,637	
Accumulated depreciation is	<u>(11,709,345)</u>	
Net Capital Assets		11,724,292
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are not recognized on the accrual basis.		200,951
Long-term obligations at year-end consist of:		
Bonds payable	6,890,000	
Certificates of participation	1,295,000	
Qualified zone academy bonds	1,700,000	
Compensated absences (vacations)	198,776	
Capital leases payable	201,001	
Other postemployment benefits	<u>905,544</u>	
Total Long-Term Obligations		<u>(11,190,321)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 11,902,169</u></u>

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Adult Education Fund	Debt Service Fund
REVENUES			
Revenue limit sources	\$ 13,513,913	\$ -	\$ -
Federal sources	1,821,278	91,714	-
Other State sources	4,624,966	230,943	-
Other local sources	1,178,131	2,883	56,697
Total Revenues	<u>21,138,288</u>	<u>325,540</u>	<u>56,697</u>
EXPENDITURES			
Current			
Instruction	13,121,320	200,968	-
Instruction-related activities:			
Supervision of instruction	1,337,211	-	-
Instructional library, media and technology	244,881	-	-
School site administration	1,603,648	132,314	-
Pupil services:			
Home-to-school transportation	282,131	-	-
Food services	9,348	-	-
All other pupil services	978,712	703	-
Administration:			
Data processing	417,763	-	-
All other administration	1,092,934	20,911	-
Plant services	2,471,466	18,859	-
Facility acquisition and construction	-	-	-
Ancillary services	39,134	-	-
Community services	85,096	-	-
Other outgo	102,952	-	-
Debt service			
Principal	92,683	-	-
Interest and other	86,847	-	-
Total Expenditures	<u>21,966,126</u>	<u>373,755</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(827,838)</u>	<u>(48,215)</u>	<u>56,697</u>
Other Financing Sources (Uses)			
Transfers in	-	23,409	-
Transfers out	(150,680)	-	-
Net Financing Sources (Uses)	<u>(150,680)</u>	<u>23,409</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(978,518)</u>	<u>(24,806)</u>	<u>56,697</u>
Fund Balance - Beginning	<u>7,822,312</u>	<u>46,622</u>	<u>1,321,492</u>
Fund Balance - Ending	<u>\$ 6,843,794</u>	<u>\$ 21,816</u>	<u>\$ 1,378,189</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 13,513,913
1,739,658	3,652,650
432,668	5,288,577
915,736	2,153,447
<u>3,088,062</u>	<u>24,608,587</u>
194,878	13,517,166
-	1,337,211
-	244,881
-	1,735,962
-	282,131
1,815,827	1,825,175
-	979,415
-	417,763
149,174	1,263,019
110,097	2,600,422
295,868	295,868
-	39,134
-	85,096
-	102,952
560,000	652,683
302,375	389,222
<u>3,428,219</u>	<u>25,768,100</u>
<u>(340,157)</u>	<u>(1,159,513)</u>
127,271	150,680
-	(150,680)
<u>127,271</u>	<u>-</u>
<u>(212,886)</u>	<u>(1,159,513)</u>
3,136,334	12,326,760
<u>\$ 2,923,448</u>	<u>\$ 11,167,247</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ (1,159,513)**
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 depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (906,587)	
Capital outlays	<u>459,050</u>	
Net Expense Adjustment		(447,537)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (977,755)

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of cost of issuance	(20,603)
----------------------------------	----------

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 less than the amounts paid by \$5,785. 5,785

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (232,913)

Payment of principal on long-term obligations 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:

General obligation bonds	560,000	
Certificates of participation	30,000	
Capital lease obligations	<u>52,272</u>	
Change in Net Assets of Governmental Activities		<u><u>\$ (2,190,264)</u></u>

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 25,062	\$ 128,780
Total Assets	<u>25,062</u>	<u>\$ 128,780</u>
 LIABILITIES		
Accounts payable	62	\$ -
Due to student groups	-	128,780
Total Liabilities	<u>62</u>	<u>\$ 128,780</u>
 NET ASSETS		
Restricted for scholarships	<u>25,000</u>	
Total Net Assets	<u>\$ 25,000</u>	

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	Scholarship Trust
ADDITIONS	
Interest	\$ 280
Total Additions	<u>280</u>
DEDUCTIONS	
Other expenditures	280
Total Deductions	<u>280</u>
Change in Net Assets	-
Net Assets - Beginning	<u>25,000</u>
Net Assets - Ending	<u><u>\$ 25,000</u></u>

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Reef-Sunset Unified School District (the District) was unified 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 Preschool - 12 as mandated by the State and/or Federal agencies. The District operates three elementary schools, one middle school, one high school, two continuation high schools, two community day schools, and an adult education program.

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 Reef-Sunset Unified School District, this includes general operations, food service, and student related activities of the District.

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 two broad fund categories: governmental and fiduciary.

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 the District. All transactions except those accounted for in another fund are accounted for in this fund.

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.

Debt Service Fund The Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation and Qualified Zone Academy Bonds.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account separately for State and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the district's own programs. The fiduciary fund category is split into two classifications: scholarship trust funds and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

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.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude 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.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded 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 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 apportionments, 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.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools and with fiscal agents are determined by the program sponsor and trustee.

Prepaid Expenditures

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

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 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 \$5,000. 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 in the government-wide statement of net assets. The valuation basis for capital assets is 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.

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, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 activities columns of the *Statement of Net Assets*.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations.

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

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities fund statement of net assets. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$5,053,439 of restricted net assets.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

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.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Property Tax

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

New Accounting Pronouncements

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

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

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 5,576,780
Fiduciary funds	153,842
Total Deposits and Investments	<u>\$ 5,730,622</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 128,980
Cash in revolving	8,140
Investments	5,593,502
Total Deposits and Investments	<u>\$ 5,730,622</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.

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.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

General Authorizations

Limitations as they relate to interest rate 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

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Investment Contracts	One Year	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 investing its funds in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 4,108,582	\$ -	\$ 4,108,582	\$ -	\$ -
Held by Trustee:					
U.S. Treasuries	218,162	-	-	218,162	-
Certificate of Deposit	680,321	680,321	-	-	-
Investment Contracts	586,437	586,437	-	-	-
Total	\$ 5,593,502	\$ 1,266,758	\$ 4,108,582	\$ 218,162	\$ -

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, U.S. Treasuries, Certificates of Deposits, and Investment Contracts are not required to be rated, nor have they been rated as of June 30, 2012.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
County Pool	\$ 4,108,582	N/A	\$ -	\$ -	\$ 4,108,582
Held by Trustee:					
U.S. Treasuries	218,162	N/A	-	-	218,162
Certificate of Deposit	680,321	N/A	-	-	680,321
Investment Contracts	586,437	N/A	-	-	586,437
Total	\$ 5,593,502		\$ -	\$ -	\$ 5,593,502

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Bank of New York	Investment Contract	\$ 586,437
Certificate of Deposit	CD	680,321
Total		\$ 1,266,758

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, none of the District's bank balance was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Certificates of Deposit and Guaranteed Investment Contracts of \$1,266,758, the District has a custodial credit risk exposure of \$987,083 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Adult Education Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 417,791	\$ 91,714	\$ 311,048	\$ 820,553
State Government				
Apportionment	4,748,104	-	-	4,748,104
Other state	804,309	84,221	215,907	1,104,437
Local Sources				
	89,907	-	-	89,907
Total	<u>\$ 6,060,111</u>	<u>\$ 175,935</u>	<u>\$ 526,955</u>	<u>\$ 6,763,001</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 1,578,033	\$ -	\$ -	\$ 1,578,033
Construction in progress	-	94,093	-	94,093
Total Capital Assets Being Not Depreciated	<u>1,578,033</u>	<u>94,093</u>	<u>-</u>	<u>1,672,126</u>
Capital Assets being depreciated				
Land improvements	2,621,423	147,978	-	2,769,401
Buildings and improvements	17,279,976	26,530	1,150,300	16,156,206
Furniture and equipment	2,645,455	190,449	-	2,835,904
Total Capital Assets Being Depreciated	<u>22,546,854</u>	<u>364,957</u>	<u>1,150,300</u>	<u>21,761,511</u>
Less Accumulated Depreciation				
Land improvements	1,885,267	255,702	-	2,140,969
Buildings and improvements	6,807,025	560,368	172,545	7,194,848
Furniture and equipment	2,283,011	90,517	-	2,373,528
Total Accumulated Depreciation	<u>10,975,303</u>	<u>906,587</u>	<u>172,545</u>	<u>11,709,345</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,149,584</u>	<u>\$ (447,537)</u>	<u>\$ 977,755</u>	<u>\$ 11,724,292</u>

Depreciation expense was charged to functional activities as follows:

Governmental Activities	
Instruction	\$ 36,263
Home-to-school transportation	54,395
Food services	45,329
Data processing	18,132
All other general administration	27,198
Plant services	725,270
Total Depreciation Expenses Governmental Activities	<u>\$ 906,587</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances consist of amounts payable between funds for board approved purposes. Interfund receivable and payable balances at June 30, 2012, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 187,000	\$ -
Adult Education	-	175,000
Total Major Governmental Funds	<u>187,000</u>	<u>175,000</u>
Non-Major Governmental Funds		
Building	-	12,000
Total Non-Major Governmental Funds	<u>-</u>	<u>12,000</u>
Total All Governmental Funds	<u>\$ 187,000</u>	<u>\$ 187,000</u>

The Adult Fund owes the General Fund for operating costs.	\$ 175,000
The Building Fund owes the General Fund for operating costs.	12,000
Total Funds	<u>\$ 187,000</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

The General Fund transferred to the Adult Education Fund for flexibility transfers.	\$ 23,409
The General Fund transferred to the Deferred Maintenance Fund for flexibility transfers.	88,463
The General Fund transferred to the Pupil Transportation Fund for mileage costs.	38,808
Total	<u>\$ 150,680</u>

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2012, consisted of the following:

Conference fees	<u>\$ 13,338</u>
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REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Adult Education Fund	Non-Major Governmental Funds	Total Governmental Total	Scholarship Trust Fund
Vendor payables	\$ 277,551	\$ 2,295	\$ 113,714	\$ 393,560	\$ 62
State apportionment	121,707	-		121,707	-
Accrued salaries and benefits	29,989	-	-	29,989	-
Deferred pay	547,876	-	-	547,876	-
Summer health and welfare	87,769	-	-	87,769	-
Total	<u>\$ 1,064,892</u>	<u>\$ 2,295</u>	<u>\$ 113,714</u>	<u>\$ 1,180,901</u>	<u>\$ 62</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General Fund
Federal financial assistance	\$ 16,801
State categorical aid	3,816
Total	<u>\$ 20,617</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 7,450,000	\$ -	\$ 560,000	\$ 6,890,000	\$ 595,000
Certificates of participation	1,325,000	-	30,000	1,295,000	35,000
Qualified zone academy bonds	1,700,000	-	-	1,700,000	-
Compensated absences - net	204,561	-	5,785	198,776	-
Capital leases	253,273	-	52,272	201,001	54,784
Other postemployment benefits	672,631	333,819	100,906	905,544	-
Total	<u>\$ 11,605,465</u>	<u>\$ 333,819</u>	<u>\$ 748,963</u>	<u>\$ 11,190,321</u>	<u>\$ 684,784</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The General Obligation Bonds are paid by the Bond Interest and Redemption Fund through the collection of local property taxes. The Certificates of Participation are paid by the General Fund. The capital leases are paid by the General Fund. The compensated absences and other postemployment benefits will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Bonds Redeemed	Bonds Outstanding June 30, 2012
May 8, 2007	August 15, 2020	4%-5%	\$ 9,315,000	<u>\$ 7,450,000</u>	<u>\$ 560,000</u>	<u>\$ 6,890,000</u>

Additionally, bond issuance costs are being amortized at \$14,285 over 15 years.

Debt Service Requirements to Maturity

2007 Revolving Bonds

The bonds mature through 2021 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 595,000	\$ 270,900	\$ 865,900
2014	635,000	246,300	881,300
2015	675,000	220,100	895,100
2016	720,000	188,600	908,600
2017	770,000	155,200	925,200
2018-2021	3,495,000	284,500	3,779,500
Total	<u>\$ 6,890,000</u>	<u>\$ 1,365,600</u>	<u>\$ 8,255,600</u>

Certificates of Participation

On November 1, 2002, the District through Delta Financing Corporation issued certificates of participation in the amount of \$1,540,000 with interest rates ranging from 2.25 to 5.10 percent. As of June 30, 2012, the principal balance outstanding was \$1,295,000.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The certificates mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 35,000	\$ 73,866	\$ 108,866
2014	35,000	72,099	107,099
2015	35,000	70,222	105,222
2016	40,000	68,113	108,113
2017	40,000	65,863	105,863
2018-2022	245,000	238,138	483,138
2023-2027	330,000	226,776	556,776
2028-2032	430,000	121,025	551,025
2033	105,000	12,043	117,043
Total	<u>\$ 1,295,000</u>	<u>\$ 948,145</u>	<u>\$ 2,243,145</u>

Qualified Zone Academy Bonds

On March 31, 2001, the District issued \$700,000 in Qualified Zone Academy Bonds (QZAB) to finance certain equipment and for the rehabilitation and repair of facilities. There is no interest payable on the QZAB in lieu of a Federal tax credit for the buyer. The total principal balance of the QZAB is due in a single lump sum payment on March 26, 2015. The District has placed an amount equal to approximately half of the QZAB principal balance with a trustee in an interest bearing account in order to service the debt when it becomes due. The value of that account at June 30, 2012, is \$586,437.

The District entered into a lease agreement dated October 1, 2005, with Delta Financing Corporation for \$1,000,000 in 2005 Qualified Zone Academy Bonds. The funds are to be used for repair and rehabilitation at qualified zone academies within the District. The bonds were issued at an interest rate of 5.43 percent and are due by October 28, 2021. The District placed \$539,691 with a financial institution in an Escrow Account. The interest earnings on these proceeds are projected to be able to fund the lease payment in its entirety when due. The value of that account at June 30, 2012, is \$680,321.

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2012, amounted to \$198,776.

Capital Leases

The District has entered into agreements to lease equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2011	\$ 253,273
Payments	52,272
Balance, June 30, 2012	<u>\$ 201,001</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 62,871
2014	59,653
2015	58,045
2016	37,702
Total	<u>218,271</u>
Less: Amount Representing Interest	17,270
Present Value of Minimum Lease Payments	<u><u>\$ 201,001</u></u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$300,187, and contributions made by the District during the year were \$97,419. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$33,632 and \$(3,487), respectively, which resulted in an increase to the net OPEB obligation of \$232,913. As of June 30, 2012, the net OPEB obligation was \$905,544. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Adult Education Fund	Debt Service Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Nonspendable						
Revolving cash	\$ 8,000	\$ -	\$ -	\$ 140	\$ 8,140	\$ -
Stores inventories	-	-	-	15,646	15,646	-
Prepaid expenditures	13,338	-	-	-	13,338	-
Total Nonspendable	<u>21,338</u>	<u>-</u>	<u>-</u>	<u>15,786</u>	<u>37,124</u>	<u>-</u>
Restricted						
Legally restricted programs	1,904,918	-	-	256,808	2,161,726	-
Capital projects	-	-	-	915,256	915,256	-
Debt services	-	-	1,378,189	811,338	2,189,527	-
Child care programs	-	-	-	177	177	-
Food service	-	-	-	536,959	536,959	-
Scholarships	-	-	-	-	-	25,000
Total Restricted	<u>1,904,918</u>	<u>-</u>	<u>1,378,189</u>	<u>2,520,538</u>	<u>5,803,645</u>	<u>25,000</u>
Committed						
Adult education program	-	21,816	-	-	21,816	-
Deferred maintenance program	-	-	-	278,767	278,767	-
Total Committed	<u>-</u>	<u>21,816</u>	<u>-</u>	<u>278,767</u>	<u>300,583</u>	<u>-</u>
Assigned						
Mandated Costs	357,493	-	-	-	357,493	-
Outside Resources	177,465	-	-	-	177,465	-
Library	6,114	-	-	-	6,114	-
Local Project	8,298	-	-	-	8,298	-
Medi-Cal	358,115	-	-	-	358,115	-
Safety	25,072	-	-	-	25,072	-
Tier Iii Flex	5,681	-	-	-	5,681	-
School Safety Block	108,625	-	-	-	108,625	-
CAHSEE	167,228	-	-	-	167,228	-
Instructional Materials	10,348	-	-	-	10,348	-
Professional Development	199,233	-	-	-	199,233	-
School and Library	456,960	-	-	108,357	565,317	-
Art, Music & PE	65,192	-	-	-	65,192	-
Gate	24,763	-	-	-	24,763	-
Math & Reading Training	34,900	-	-	-	34,900	-
Math & Reading Professional Development	107,309	-	-	-	107,309	-
Other assignments	366,262	-	-	-	366,262	-
Total Assigned	<u>2,479,058</u>	<u>-</u>	<u>-</u>	<u>108,357</u>	<u>2,587,415</u>	<u>-</u>
Unassigned						
Reserve for economic uncertainties	1,255,000	-	-	-	1,255,000	-
Remaining unassigned	1,183,480	-	-	-	1,183,480	-
Total Unassigned	<u>2,438,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,438,480</u>	<u>-</u>
Total	<u>\$ 6,843,794</u>	<u>\$ 21,816</u>	<u>\$ 1,378,189</u>	<u>\$ 2,923,448</u>	<u>\$ 11,167,247</u>	<u>\$ 25,000</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following District major funds exceeded the budgeted amounts as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated salaries	\$ 9,473,488	\$ 9,565,051	\$ 91,563
Employee benefits	\$ 4,042,991	\$ 4,160,433	\$ 117,442
Books and supplies	\$ 1,642,576	\$ 1,903,941	\$ 261,365
Services and operating expenditures	\$ 2,488,790	\$ 2,523,508	\$ 34,718
Capital outlay	\$ 14,819	\$ 30,805	\$ 15,986
Debt service - principal	\$ 91,142	\$ 92,683	\$ 1,541
Debt service - interest	\$ 83,600	\$ 86,847	\$ 3,247
Adult Education			
Certificated salaries	\$ 151,101	\$ 168,057	\$ 16,956
Classified salaries	\$ 91,154	\$ 95,956	\$ 4,802
Services and operating expenditures	\$ 12,038	\$ 16,551	\$ 4,513
Other outgo	\$ 18,839	\$ 20,910	\$ 2,071

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Reef-Sunset Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of ten retirees and beneficiaries currently receiving benefits and 186 active plan members as of the last actuarial study.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the Teachers Association, the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, FEA, CSEA and the unrepresented groups. For fiscal year 2011-12, the District contributed \$97,419 to the plan, all of which was used for current premiums (approximately 66 percent of total premiums). Plan members receiving benefits contributed \$51,274 or approximately 34 percent of the total premiums.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 300,187
Interest on net OPEB obligation	33,632
Adjustment to annual required contribution	<u>(3,487)</u>
Annual OPEB cost (expense)	330,332
Contributions made	<u>(97,419)</u>
Increase in net OPEB obligation	232,913
Net OPEB obligation, beginning of year	<u>672,631</u>
Net OPEB obligation, end of year	<u><u>\$ 905,544</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 330,332	\$ 97,419	29.49%	\$ 905,544
2011	320,489	100,881	31.48%	672,631
2010	300,187	103,950	34.63%	453,023

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Level Percentage of Payroll (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 1, 2010	\$ -	\$ 2,532,591	\$ 2,532,591	0.00%	\$ 13,567,137	18.67%

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Actuarial Methods and Assumptions

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

In the November 1, 2010, actuarial valuation, the level percentage of payroll method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost rates will increase at an average of four percent per year. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2012, was 27 years.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District contracted with Self-Insured Schools of California (SISC) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Workers' Compensation

For fiscal year 2012, the District participated in the Kings County Self-Insured Schools JPA (KCSIS), an insurance purchasing pool. The intent of KCSIS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in KCSIS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in KCSIS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of KCSIS. Participation in KCSIS is limited to districts that can meet KCSIS selection criteria.

Employee Medical Benefits

The District has contracted with California's Valued Trust to provide employee health, dental and vision benefits. Benefits are self funded and are paid out of the assets of the Trust. Each participating school district's contribution to the Trust is determined by the collective bargaining agreement between the individual district and CTA or California School Employees Association and/or by the participating agreement between the district and the Trust with respect to employees not covered by a collective bargaining agreement. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 2011-12 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, 2012, 2011, and 2010, were \$768,008, \$783,751, and \$755,466, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 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 2011-12 was 10.923 percent of covered 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, 2012, 2011, and 2010, were \$402,268, \$378,627, and \$345,871, respectively, and equal 100 percent of the required contributions for each year.

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 Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$443,481 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted and actual amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - 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, 2012.

Litigation

The District is not currently a party to any legal proceedings.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2012, the District had no commitments with respect to the unfinished capital projects.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC), the Kings County Self-Insured Schools (KCSIS), and the California's Valued Trust (CVT) joint powers authorities (JPAs). The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District 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 available from the respective entities.

During the year ended June 30, 2012, the District made payment of \$104,122 to SISC for property and liability coverage.

During the year ended June 30, 2012, the District made payment of \$251,031 to KCSIS for workers' compensation.

During the year ended June 30, 2012, the District made payment of \$2,283,240 to CVT for health coverage.

NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 12,381,853	\$ 13,171,267	\$ 13,513,913	\$ 342,646
Federal sources	1,801,295	2,015,728	1,821,278	(194,450)
Other State sources	4,384,358	4,117,509	4,181,485	63,976
Other local sources	1,053,606	1,003,967	1,178,131	174,164
Total Revenues ¹	<u>19,621,112</u>	<u>20,308,471</u>	<u>20,694,807</u>	<u>386,336</u>
EXPENDITURES				
Current				
Certificated salaries	9,750,639	9,473,488	9,565,051	(91,563)
Classified salaries	3,018,857	3,361,413	3,226,508	134,905
Employee benefits	3,650,895	4,042,991	4,160,433	(117,442)
Books and supplies	1,087,992	1,642,576	1,903,941	(261,365)
Services and operating expenditures	1,844,019	2,488,790	2,523,508	(34,718)
Other outgo	(76,099)	(8,363)	(67,131)	58,768
Capital outlay	30,484	14,819	30,805	(15,986)
Debt service - principal	91,142	91,142	92,683	(1,541)
Debt service - interest	83,600	83,600	86,847	(3,247)
Total Expenditures ¹	<u>19,481,529</u>	<u>21,190,456</u>	<u>21,522,645</u>	<u>(332,189)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>139,583</u>	<u>(881,985)</u>	<u>(827,838)</u>	<u>54,147</u>
Other Financing Sources (Uses)				
Transfers in	-	146,872	-	(146,872)
Transfers out	(314,923)	-	(150,680)	(150,680)
Net Financing Sources (Uses)	<u>(314,923)</u>	<u>146,872</u>	<u>(150,680)</u>	<u>(297,552)</u>
NET CHANGE IN FUND BALANCES	<u>(175,340)</u>	<u>(735,113)</u>	<u>(978,518)</u>	<u>(243,405)</u>
Fund Balance - Beginning	<u>7,822,312</u>	<u>7,822,312</u>	<u>7,822,312</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 7,646,972</u>	<u>\$ 7,087,199</u>	<u>\$ 6,843,794</u>	<u>\$ (243,405)</u>

¹ On behalf payments are not included in revenues and expenditures in this schedule.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**ADULT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Federal sources	\$ 82,538	\$ 91,714	\$ 91,714	\$ -
Other State sources	47,845	230,444	229,843	(601)
Other local sources	800	1,280	2,883	1,603
Total Revenues	131,183	323,438	324,440	1,002
EXPENDITURES				
Current				
Certificated salaries	151,770	151,101	168,057	(16,956)
Classified salaries	68,334	91,154	95,956	(4,802)
Employee benefits	61,834	74,557	59,339	15,218
Books and supplies	16,775	13,164	12,941	223
Services and operating expenditures	23,716	12,038	16,551	(4,513)
Other outgo	8,893	18,839	20,910	(2,071)
Total Expenditures	331,322	360,853	373,754	(12,901)
Excess (Deficiency) of Revenues Over Expenditures	(200,139)	(37,415)	(49,314)	13,903
Other Financing Sources (Uses)				
Transfers in	191,151	23,409	23,409	-
Net Financing Sources (Uses)	191,151	23,409	23,409	-
NET CHANGE IN FUND BALANCES	(8,988)	(14,006)	(25,905)	(11,899)
Fund Balance - Beginning	31,544	46,622	46,622	46,622
Fund Balance - Ending	\$ 22,556	\$ 32,616	\$ 20,717	\$ (11,899)

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Level Percentage of Payroll (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 1, 2010	\$ -	\$ 2,532,591	\$ 2,532,591	0.00%	\$ 13,567,137	18.67%
February 26, 2007	\$ -	\$ 2,518,220	\$ 2,518,220	0.00%	\$ 11,659,597	21.60%

SUPPLEMENTARY INFORMATION

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
Adult Education			
Adult Education - ABE/ESL	84.002A	14508	\$ 40,332
Adult Secondary Education	84.002	13978	6,779
Adult Education - English Literacy and Civics	84.002A	14109	44,603
No Child Left Behind			
Title I - Part A, Basic	84.010	14329	914,963
Title I - Migrant - Regular	84.011	14326	199,594
Title I - Migrant - Summer School	84.011	10005	68,273
Title I - Part G: Advanced Placement Fee Assistance	84.330	14831	2,661
Title II - Teacher Quality	84.376	14341	233,099
Title II - Enhancing Education Through Technology (EETH) Cluster			
Title II - EETT, Formula Grants	84.318	14334	2,498
ARRA: Title II - EETT, Formula Grants	84.386	15019	12,231
ARRA: Title II - EETT, Competitive Grants	84.386	15126	2,041
Subtotal Title II - EETT Cluster			16,770
Title III - LEP	84.365	14346	226,910
Education Jobs Funds	84.410	25152	7,255
IDEA, Part B, Local Assistance	84.027	13379	96,507
Vocational Educational Grants			
Applied Technology Secondary II C	84.048	14894	24,188
Technology Prep Programs	84.243	14899	4,336
Total U.S. Department of Education			1,886,270
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13391	991,350
Especially Needy Breakfast	10.553	13526	645,176
Meal Supplements	10.555	13391	61,780
Food Distribution	10.555	13391	46,044
Summer Food Program	10.559	13004	41,353
Subtotal Child Nutrition Cluster			1,785,703
Total U.S. Department of Agriculture			1,785,703

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services			
Medi-Cal Billing Option	93.778	10013	\$ 26,721
Total U.S. Department of Health and Human Services			<u>26,721</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,698,694</u></u>

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Reef-Sunset Unified School District was unified in 1980 and consists of an area comprising approximately 19.03 square miles. The District operates three elementary schools, one middle school, one high school, two continuation high schools, two community day schools, and an adult education program. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Larry Bunch	President	2012
Gail Monohon	Clerk	2014
Jose Barrera	Member	2014
Bill Hatcher	Member	2012
Ricardo Verdugo	Member	2012

ADMINISTRATION

David East, Ed.D.	Superintendent
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See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	229.59	230.05
First through third	594.70	594.35
Fourth through sixth	621.81	620.89
Seventh and eighth	363.70	363.73
Community day school	8.39	8.67
Home and hospital	1.06	1.05
Special education	15.91	16.33
Total Elementary	<u>1,835.16</u>	<u>1,835.07</u>
SECONDARY		
Regular classes	574.65	571.00
Continuation education	28.26	27.19
Community day school	4.22	4.26
Special education	11.99	12.52
Total Secondary	<u>619.12</u>	<u>614.97</u>
Total K-12	<u><u>2,454.28</u></u>	<u><u>2,450.04</u></u>

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,080	33,675	36,000	33,600	56,250	180	N/A	Complied
Grades 1-3	39,600	36,960	50,400	47,040				
Grade 1					56,475	180	N/A	Complied
Grade 2					56,475	180	N/A	Complied
Grade 3					56,475	180	N/A	Complied
Grades 4-8	55,792	52,073	54,000	50,400				
Grade 4					56,925	180	N/A	Complied
Grade 5					56,925	180	N/A	Complied
Grade 6					57,375	180	N/A	Complied
Grade 7					57,892	180	N/A	Complied
Grade 8					57,892	180	N/A	Complied
Grades 9-12	59,136	55,194	64,800	60,480				
Grade 9					64,975	180	N/A	Complied
Grade 10					64,975	180	N/A	Complied
Grade 11					64,975	180	N/A	Complied
Grade 12					64,975	180	N/A	Complied

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND				
Revenues	\$ 18,325,680	\$ 20,694,805	\$ 22,100,258	\$ 20,840,950
Other sources and transfers in	-	-	259,120	-
Total Revenues and Other Sources ³	<u>18,325,680</u>	<u>20,694,805</u>	<u>22,359,378</u>	<u>20,840,950</u>
Expenditures	21,341,969	21,522,643	21,434,442	20,283,087
Other uses and transfers out	117,661	150,680	335,409	417,297
Total Expenditures and Other Uses ³	<u>21,459,630</u>	<u>21,673,323</u>	<u>21,769,851</u>	<u>20,700,384</u>
INCREASE/(DECREASE) IN FUND BALANCE	\$ (3,133,950)	\$ (978,518)	\$ 589,527	\$ 140,566
ENDING FUND BALANCE	<u>\$ 3,709,844</u>	<u>\$ 6,843,794</u>	<u>\$ 7,822,312</u>	<u>\$ 7,232,785</u>
AVAILABLE RESERVES ²	<u>\$ 1,333,903</u>	<u>\$ 2,438,480</u>	<u>\$ 2,013,683</u>	<u>\$ 1,404,838</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>6.22%</u>	<u>11.3%</u>	<u>9.25%</u>	<u>6.79%</u>
LONG-TERM OBLIGATIONS	<u>Not Available</u>	<u>\$ 11,190,321</u>	<u>\$ 11,605,465</u>	<u>\$ 11,809,668</u>
AVERAGE DAILY ATTENDANCE AT P-2	<u>2,466</u>	<u>2,454</u>	<u>2,443</u>	<u>2,391</u>

The General Fund balance has decreased by \$388,991 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$3,133,950 (45.79 percent). For a district this size, the State recommends available reserves of at least 3.0 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 2012-13 fiscal year. Total long-term obligations have decreased by \$619,347 over the past two years.

Average daily attendance has increased by 63 over the past two years. Growth of 12 ADA is anticipated during fiscal year 2012-13.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments have been excluded from revenues and expenditures in this schedule.

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 22,182	\$ 88,121	\$ 292,499
Receivables	40,910	486,045	-
Stores inventories	-	15,646	-
Total Assets	\$ 63,092	\$ 589,812	\$ 292,499
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 62,915	\$ 37,067	\$ 13,732
Due to other funds	-	-	-
Total Liabilities	62,915	37,067	13,732
Fund Balances:			
Nonspendable	-	15,786	-
Restricted	177	536,959	-
Committed	-	-	278,767
Assigned	-	-	-
Total Fund Balances	177	552,745	278,767
Total Liabilities and Fund Balances	\$ 63,092	\$ 589,812	\$ 292,499

See accompanying note to supplementary information.

Pupil Transportation Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ 256,808	\$ 106,979	\$ 406,072	\$ 522,562	\$ 811,338
-	-	-	-	-
-	-	-	-	-
<u>\$ 256,808</u>	<u>\$ 106,979</u>	<u>\$ 406,072</u>	<u>\$ 522,562</u>	<u>\$ 811,338</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	12,000	-	-	-
-	12,000	-	-	-
-	-	-	-	-
256,808	94,979	406,072	414,205	811,338
-	-	-	-	-
-	-	-	108,357	-
<u>256,808</u>	<u>94,979</u>	<u>406,072</u>	<u>522,562</u>	<u>811,338</u>
<u>\$ 256,808</u>	<u>\$ 106,979</u>	<u>\$ 406,072</u>	<u>\$ 522,562</u>	<u>\$ 811,338</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, Continued
JUNE 30, 2012**

	Total Non-Major Governmental Funds
ASSETS	
Deposits and investments	\$ 2,506,561
Receivables	526,955
Stores inventories	15,646
Total Assets	\$ 3,049,162
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 113,714
Due to other funds	12,000
Total Liabilities	125,714
Fund Balances:	
Nonspendable	15,786
Restricted	2,520,538
Committed	278,767
Assigned	108,357
Total Fund Balances	2,923,448
Total Liabilities and Fund Balances	\$ 3,049,162

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 1,739,658	\$ -
Other State sources	194,878	149,327	88,463
Other local sources	447	11,586	-
Total Revenues	<u>195,325</u>	<u>1,900,571</u>	<u>88,463</u>
EXPENDITURES			
Current			
Instruction	194,878	-	-
Pupil services:			
Food services	-	1,815,827	-
Administration:			
All other administration	-	149,174	-
Plant services	356	11,538	84,567
Facility acquisition and construction	-	23,900	63,072
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>195,234</u>	<u>2,000,439</u>	<u>147,639</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>91</u>	<u>(99,868)</u>	<u>(59,176)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	88,463
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>88,463</u>
NET CHANGE IN FUND BALANCES	91	(99,868)	29,287
Fund Balance - Beginning	86	652,613	249,480
Fund Balance - Ending	<u>\$ 177</u>	<u>\$ 552,745</u>	<u>\$ 278,767</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
2,563	(5)	50,856	5,782	844,507
<u>2,563</u>	<u>(5)</u>	<u>50,856</u>	<u>5,782</u>	<u>844,507</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	13,636	-	-
-	201,721	7,175	-	-
-	-	-	-	560,000
-	350	-	-	302,025
<u>-</u>	<u>202,071</u>	<u>20,811</u>	<u>-</u>	<u>862,025</u>
<u>2,563</u>	<u>(202,076)</u>	<u>30,045</u>	<u>5,782</u>	<u>(17,518)</u>
38,808	-	-	-	-
<u>38,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
41,371	(202,076)	30,045	5,782	(17,518)
215,437	297,055	376,027	516,780	828,856
<u>\$ 256,808</u>	<u>\$ 94,979</u>	<u>\$ 406,072</u>	<u>\$ 522,562</u>	<u>\$ 811,338</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES, Continued
FOR THE YEAR ENDED JUNE 30, 2012**

	Total Non-Major Governmental Funds
REVENUES	
Federal sources	\$ 1,739,658
Other State sources	432,668
Other local sources	915,736
Total Revenues	3,088,062
EXPENDITURES	
Current	
Instruction	194,878
Pupil services:	
Food services	1,815,827
Administration:	
All other administration	149,174
Plant services	110,097
Facility acquisition and construction	295,868
Debt service	
Principal	560,000
Interest and other	302,375
Total Expenditures	3,428,219
Excess (Deficiency) of Revenues Over Expenditures	(340,157)
Other Financing Sources (Uses)	
Transfers in	127,271
Net Financing Sources (Uses)	127,271
NET CHANGE IN FUND BALANCES	(212,886)
Fund Balance - Beginning	3,136,334
Fund Balance - Ending	\$ 2,923,448

See accompanying note to supplementary information.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of fair market value of commodities which are not reported as revenues and expenditures in the financial statements.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 3,652,650
Reconciling items:		
Food Distribution	10.555	46,044
Total Schedule of Expenditures of Federal Awards		<u>\$ 3,698,694</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

REEF-SUNSET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Reef-Sunset Unified School District
Avenal, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reef-Sunset Unified School District as of and for the year ended June 30, 2012, which collectively comprise Reef-Sunset Unified School District's basic financial statements and have issued our report thereon dated December 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reef-Sunset 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

We noted certain matters that we reported to management of Reef-Sunset Unified School District in a separate letter dated December 13, 2012.

Reef-Sunset Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Reef-Sunset 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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannest, Eric, Day & Co., LLP

Fresno, California
December 13, 2012



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

Governing Board
Reef-Sunset Unified School District
Avenal, California

Compliance

We have audited Reef-Sunset Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Reef-Sunset Unified School District's major Federal programs for the year ended June 30, 2012. Reef-Sunset 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 Reef-Sunset Unified School District's management. Our responsibility is to express an opinion on Reef-Sunset 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 Reef-Sunset 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 Reef-Sunset Unified School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Reef-Sunset 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 Reef-Sunset Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Reef-Sunset Unified School District's internal control over compliance.

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

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

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

Vannoy, Eric, Day & Co., LLP

Fresno, California
December 13, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Reef-Sunset Unified School District
 Avenal, California

We have audited Reef-Sunset Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, applicable to Reef-Sunset Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Reef-Sunset Unified School District's management. Our responsibility is to express an opinion on Reef-Sunset Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Reef-Sunset Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Reef-Sunset Unified School District's compliance with those requirements.

In our opinion, Reef-Sunset Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

Reef-Sunset Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Reef-Sunset Unified School District's response and, accordingly, express no opinion on it.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting, Continued:		
Independent study	23	No (see below)
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not Applicable
Mode of instruction	1	Not Applicable
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	4	Not Applicable

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

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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannest, Eric, Day & Co., LLP

Fresno, California
December 13, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.011</u>	<u>Title I - Migrant Programs</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
Unqualified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>After School Education and Safety Program</u>

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

The following finding represents an instance of noncompliance and/or questioned costs relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2012-1 40000

TAMARACK ELEMENTARY SCHOOL

After School Education and Safety Program

Criteria

According to Education Code Section 8482.3, the After School Education and Safety Program (ASES) establishes before and after school enrichment programs that partner public schools and communities to provide academic and literacy support and safe, constructive alternatives for students in grades K-9. To determine funding for the sites, semi-annual attendance reports are submitted to the State for those programs directly funded from the state and the reports should be supported by written records of pupil participation.

Condition

During our audit of the ASES program, we noted that the total attendance on the original source documents do not agree to the total attendance that is reported on the semi-annual attendance report for Tamarack Elementary School. We tested one month (November 7 to December 2, 2011), and it appears that the site overstated their attendance for that month by 56 students. We determined that the error rate for that specific month was 4.2 percent, so the total overstatement of students for the semi-annual attendance reporting period for Tamarack Elementary was determined to be 315 students, based on the error rate of 4.2 percent.

Effect

There is no questioned cost associated with the misstatements of site hours as the student attendance information was correct which is what the District's funding is based on.

Cause

The process for reporting the ASES attendance goes through many different steps and the attendance numbers get transferred at least three times before being recorded on to the semi-annual attendance report. During these transfers, it appears that there were some human errors that occurred. The site records attendance on individual student's sign in/out sheet and from there, the attendance is transferred to a monthly class roster. It appears that there were some errors made during that transfer. Then from the monthly class rosters the attendance is entered into Aeries. At the end of the reporting period, a report is generated from Aeries to show the total attendance. However, again there were some transfer errors from the monthly class roster to Aeries.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Recommendation

The site should review their procedures for taking attendance for the ASES program and streamline the process as much as possible. The District should use an excel spreadsheet to record the daily attendance. With the spreadsheet, the site can have a daily total column and a monthly total that is calculated on excel. At the end of the semi-annual attendance period, the site can have a total for all of the months, which would be recorded on to the semi-annual attendance report. In addition, an independent review of the semi-annual attendance report should be performed to ensure adequate reporting.

Corrective Action Plan

The District will work with the sites to try and automate the record keeping process to control calculation errors which will also aid in efficiency.

REEF-SUNSET UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no audit findings in the prior year's schedule of financial statement findings.



December 13, 2012

Governing Board
Reef-Sunset Unified School District
Avenal, California

In planning and performing our audit of the financial statements of Reef-Sunset Unified School District for the year ended June 30, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2012, on the financial statements of Reef-Sunset Unified School District.

AVENAL HIGH SCHOOL – ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Finding

It appears that the site does not provide adequate controls over cash receipts. The following deficiencies were noted:

- Not all teachers are using sub-receipt books or a class roster (there is no supporting documentation) to document when money is being turned in, how much money, and by which students.
- Tally sheets or sales recap forms are not used for certain fundraisers and student store to determine whether the funds collected were deposited intact to the bookkeeper.
- Cash collections are being receipted/posted in the accounting system at the time of the bank deposit, rather than at the time or soon after the collection of the money by the bookkeeper. The actual date of receipt is not recorded anywhere.

Recommendation

In order to improve controls over cash receipts:

- Prenumbered sub-receipts should be issued for all cash collections by teacher or advisors which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.
- Tally sheets should be used for certain fundraisers to document the number of items sold. The total number of tallies should be compared to the cash collected to ensure they agree. Reasoning for any differences noted should be documented. The tally sheet should be submitted with the deposits to the bookkeeper.

- To strengthen the procedures over cash collections, all cash should be verified and receipted at the time of or very soon after the money is turned over to the bookkeeper. This procedure prevents and avoids any dispute over the amount of cash submitted by the person turning in the funds to the office. The immediate receipting process is also a tool for the bookkeeper to reconcile the cash awaiting deposit to the receipts issued since the last bank deposit. The current system would not disclose that funds have been misplaced or stolen since the cash on hand at the date of the deposit would be the only funds receipted.

Fees

Finding

During our audit of the club constitutions or charters, it was noted that some clubs require students pay a membership fee. It appears that the site is aware of membership fees being prohibited and that some of the constitutions may be outdated. If membership fees are being collected, this practice violates the State's laws regarding free education in public schools.

Recommendation

The California Department of Education has concluded that extracurricular activities are part of a student educational program and therefore, cannot be charged to participate. Donations can be requested and fundraisers held to aid in paying for the activity but no student can be excluded because they do not pay a fee. Club constitutions or charters should be reviewed and updated to ensure that membership fees are not required.

Budgeting

Finding

The student body organization at the site does not incorporate a budget into their control procedures as suggested in the "Accounting Procedures for Student Organizations" manual, as prepared by the School Business Services Division of the California Department of Education.

Recommendation

The manual suggests preparing budgets to control and monitor the financial activities of the student body organizations. The ASB should prepare a budget at the beginning of the school year. Some aspects that the Department of Education highlights are:

- Updates will be necessary to the budget as circumstances change; the budgeting procedures are an ongoing process.
- The preliminary budget should include the beginning balances of the organizations, estimated sources of income, and estimated expenditures.
- The surplus left over in the accounts at the end of the year must be kept at a minimum. The underlying focus of a student body is that the funds generated by a group of students should be spent during the same year for the benefit of those students.
- The budget should be compared regularly to the actual financial activities of the organizations. One reason for this is to ensure that no organization enters into a deficit spending situation during the year.

Governing Board
Reef-Sunset Unified School District
December 13, 2012

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

Vanneth, Eric, Day & Co., LLP

Fresno, California
December 13, 2012