



SANTEE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SANTEE SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Santee School District
Santee, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santee 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 2011-2012*, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Santee School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 14, 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, and the budgetary comparison information and schedule of other post employment benefits on pages 54 and 55 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 2012



Santee School District

SCHOOLS:

Cajon Park
Carlton Hills
Carlton Oaks
Chet F. Harritt
Hill Creek
Pepper Drive
PRIDE Academy
at Prospect Avenue
Rio Seco
Sycamore Canyon
Alternative
Success Program

This section of Santee School District's (the District) (2011-2012) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012, with comparative information from 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

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

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

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

The Primary unit of the government is the Santee School District.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District continued with its strong emphasis on maximizing its financial resources by aggressively pursuing short and long-term strategies to guide the District toward stronger and sustained fiscal health. During the last three years, the District has enacted over \$6 million in budget solutions for the General Fund, to respond to precipitous declines in State Revenue. The District continues to closely monitor the General Fund to adapt and respond to changing conditions and assumptions. Deficits (outgo exceeds income) are continually analyzed for the potential development of a structural deficit (ongoing outgo exceeds ongoing income). This year, the District took steps to reduce long-term debt for which payments are made from the General Fund, in order to reduce a growing structural deficit. This was accomplished with early pay-off of over \$2 million in obligations for several Early Retirement Incentives offered in previous years.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's Project SAFE and YALE programs and services are included here.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash.

The Governmental Fund Statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$74,129,509 for the fiscal year ended June 30, 2012. Of this amount, \$2,269,283 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's activities.

Table 1

	Governmental Activities		Business-Type Activities		Total School District Activities	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 33,257,222	\$ 51,952,337	\$ 25,620	\$ 368,037	\$ 33,282,842	\$ 52,320,374
Capital assets	126,738,783	103,601,295	-	-	126,738,783	103,601,295
Total Assets	159,996,005	155,553,632	25,620	368,037	160,021,625	155,921,669
Liabilities						
Current liabilities	4,900,139	2,300,585	25,620	31,270	4,925,759	2,331,855
Long-term obligations	80,966,357	82,674,982	-	-	80,966,357	82,674,982
Total Liabilities	85,866,496	84,975,567	25,620	31,270	85,892,116	85,006,837
Net Assets						
Invested in capital assets, net of related debt	62,013,603	61,349,147	-	-	62,013,603	61,349,147
Restricted	9,846,623	7,550,189	-	-	9,846,623	7,550,189
Unrestricted	2,269,283	1,678,729	-	336,767	2,269,283	2,015,496
Total Net Assets	\$ 74,129,509	\$ 70,578,065	\$ -	\$ 336,767	\$ 74,129,509	\$ 70,914,832

The \$2,269,283 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

SANTEE SCHOOL DISTRICT

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

Changes in Net Assets

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

Table 2

	Governmental Activities		Business-Type Activities		Total School District Activities	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 558,845	\$ 648,534	\$ -	\$ -	\$ 558,845	\$ 648,534
Operating grants and contributions	8,396,809	11,533,146	521,802	459,193	8,918,611	11,992,339
Capital grants and contributions	2,279,414	35,112,655	-	-	2,279,414	35,112,655
General revenues:						
Federal and State aid	27,108,060	27,239,517	-	-	27,108,060	27,239,517
Property taxes	12,542,325	11,594,712	-	-	12,542,325	11,594,712
Other general revenues	4,932,447	2,719,585	1,909,202	1,960,514	6,841,649	4,680,099
Total Revenues	55,817,900	88,848,149	2,431,004	2,419,707	58,248,904	91,267,856
Expenses						
Instruction	30,921,073	28,758,013	-	-	30,921,073	28,758,013
Instruction-related	4,294,765	3,957,596	-	-	4,294,765	3,957,596
Pupil services	5,067,920	4,436,989	-	-	5,067,920	4,436,989
Administration	3,559,011	4,093,926	-	-	3,559,011	4,093,926
Plant services	4,293,732	4,125,557	-	-	4,293,732	4,125,557
Community services	263,123	266,677	-	-	263,123	266,677
Other	3,847,135	3,596,546	2,787,468	2,714,352	6,634,603	6,310,898
Total Expenses	52,246,759	49,235,304	2,787,468	2,714,352	55,034,227	51,949,656
Transfers	(19,697)	-	19,697	-	-	-
Change in Net Assets	\$ 3,551,444	\$ 39,612,845	\$ (336,767)	\$ (294,645)	\$ 3,214,677	\$ 39,318,200

SANTEE SCHOOL DISTRICT

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

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$52,246,759. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$12,542,325 because the cost was paid by those who benefited from the programs (\$558,845) or by other governments and organizations who subsidized certain programs with grants and contributions (\$10,676,223). We paid for the remaining "public benefit" portion of our governmental activities with \$32,040,507 in State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of all our governmental activities by function: instruction, instruction-related services, pupil services, administration, plant services, community services and other outgo, as well as each program's *net cost* (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instruction	\$ 30,921,073	\$ 28,758,013	\$ 23,472,366	\$ (14,463,604)
Instruction-related services	4,294,765	3,957,596	3,903,630	3,439,981
Pupil services	5,067,920	4,436,989	2,269,356	1,448,914
Administration	3,559,011	4,093,926	3,007,201	3,571,222
Plant services	4,293,732	4,125,557	4,291,904	4,123,335
Community services	263,123	266,677	257,464	244,827
Other	3,847,135	3,596,546	3,809,770	3,576,294
Total	\$ 52,246,759	\$ 49,235,304	\$ 41,011,691	\$ 1,940,969

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$27,150,365, which is a decrease of \$21,282,819 from last year (Table 4).

Table 4

	<u>Balances and Activity</u>			
	<u>July 1, 2011</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2012</u>
General Fund	\$ 13,036,877	\$ 47,143,829	\$ 48,195,438	\$ 11,985,268
Building Fund	26,839,771	2,435,076	24,058,827	5,216,020
Non-Major Governmental Funds	8,556,536	10,272,170	8,879,629	9,949,077
Total	\$ 48,433,184	\$ 59,851,075	\$ 81,133,894	\$ 27,150,365

SANTEE SCHOOL DISTRICT

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

The primary reason for the decrease is:

- A. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased from \$13,036,877 to \$11,985,268.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$126,738,783 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$23,137,488, or 22.3 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2012	2011
Land	\$ 8,547,242	\$ 8,547,242
Construction in progress	667,388	70,091,374
Buildings and improvements	115,756,139	23,120,849
Furniture and equipment	1,768,014	1,841,830
Total	\$ 126,738,783	\$ 103,601,295

SANTEE SCHOOL DISTRICT

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

Long-Term Obligations

Long-term obligations include general obligation bonds, certificates of participation, accumulated vacation, postemployment benefits and the Qualified Zone Academy Bond (QZAB). We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Table 6

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
General obligation bonds (financed with property taxes)	\$ 47,137,743	\$ 46,184,236
Premium on general obligation bond	1,449,336	1,508,402
Certificates of participation	25,892,015	25,979,430
Accumulated vacation - net	209,039	221,401
CalSTRS Golden Handshake	-	2,596,333
Qualified Zone Academy Bond (QZAB)	5,000,000	5,000,000
OPEB obligation, net	<u>1,278,224</u>	<u>1,185,180</u>
Total	<u>\$ 80,966,357</u>	<u>\$ 82,674,982</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Karl Christensen, Assistant Superintendent, Business Services, at Santee School District, 9625 Cuyamaca Street, Santee, California, 92071, or e-mail at karl.christensen@santeesd.net.

SANTEE SCHOOL DISTRICT

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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 18,546,134	\$ 224,086	\$ 18,770,220
Receivables	11,873,743	39,503	11,913,246
Internal balances	237,969	(237,969)	-
Prepaid expenditures	375,665	-	375,665
Stores inventories	132,277	-	132,277
Cost of issuance	2,091,434	-	2,091,434
Capital assets			
Land and construction in progress	9,214,630	-	9,214,630
Other capital assets	139,438,465	-	139,438,465
Less: accumulated depreciation	(21,914,312)	-	(21,914,312)
Total Capital Assets	<u>126,738,783</u>	<u>-</u>	<u>126,738,783</u>
TOTAL ASSETS	<u>159,996,005</u>	<u>25,620</u>	<u>160,021,625</u>
LIABILITIES			
Accounts payable	1,155,195	25,620	1,180,815
Interest payable	884,716	-	884,716
Deferred revenue	96,652	-	96,652
Current loans	2,763,576	-	2,763,576
Long-term obligations:			
Current portion of long-term obligations	435,648	-	435,648
Noncurrent portion of long-term obligations	80,530,709	-	80,530,709
Total Long-Term Obligations	<u>80,966,357</u>	<u>-</u>	<u>80,966,357</u>
TOTAL LIABILITIES	<u>85,866,496</u>	<u>25,620</u>	<u>85,892,116</u>
NET ASSETS			
Invested in capital assets, net of related debt	62,013,603	-	62,013,603
Restricted for:			
Debt service	8,832,241	-	8,832,241
Capital projects	192,950	-	192,950
Educational programs	821,432	-	821,432
Unrestricted	2,269,283	-	2,269,283
TOTAL NET ASSETS	<u>\$ 74,129,509</u>	<u>\$ -</u>	<u>\$ 74,129,509</u>

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

SANTEE SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 30,921,073	\$ 491	\$ 5,168,802	\$ 2,279,414
Instruction-related activities:				
Supervision of instruction	621,040	-	265,923	-
Instructional library, media, and technology	935,597	-	119,392	-
School site administration	2,738,128	-	5,820	-
Pupil services:				
Home-to-school transportation	969,988	-	330,312	-
Food services	2,048,785	518,756	1,083,914	-
All other pupil services	2,049,147	-	865,582	-
General administration:				
Data processing	360,784	-	2,437	-
All other general administration	3,198,227	24,839	524,534	-
Plant services	4,293,732	597	1,231	-
Community services	263,123	1,947	3,712	-
Interest on long-term obligations	3,847,135	-	-	-
Other outgo	-	12,215	25,150	-
Total Governmental Activities	52,246,759	558,845	8,396,809	2,279,414
Business-Type Activities				
Project Safe and YALE Enterprise	2,787,468	-	521,802	-
Total School District	\$ 55,034,227	\$ 558,845	\$ 8,918,611	\$ 2,279,414

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
- Internal transfers

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	Business-Type Activities	Total
\$ (23,472,366)	\$ -	\$ (23,472,366)
(355,117)	-	(355,117)
(816,205)	-	(816,205)
(2,732,308)	-	(2,732,308)
(639,676)	-	(639,676)
(446,115)	-	(446,115)
(1,183,565)	-	(1,183,565)
(358,347)	-	(358,347)
(2,648,854)	-	(2,648,854)
(4,291,904)	-	(4,291,904)
(257,464)	-	(257,464)
(3,847,135)	-	(3,847,135)
37,365	-	37,365
(41,011,691)	-	(41,011,691)
-	(2,265,666)	(2,265,666)
(41,011,691)	(2,265,666)	(43,277,357)
10,123,743	-	10,123,743
1,698,099	-	1,698,099
720,483	-	720,483
27,108,060	-	27,108,060
61,521	1,051	62,572
4,870,926	1,908,151	6,779,077
(19,697)	19,697	-
44,563,135	1,928,899	46,492,034
3,551,444	(336,767)	3,214,677
70,578,065	336,767	70,914,832
\$ 74,129,509	\$ -	\$ 74,129,509

SANTEE SCHOOL DISTRICT

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 3,101,360	\$ 5,654,976	\$ 9,789,798	\$ 18,546,134
Receivables	11,553,253	5,146	315,344	11,873,743
Due from other funds	556,002	23	145,262	701,287
Prepaid expenditures	375,665	-	-	375,665
Stores inventories	50,327	-	81,950	132,277
Total Assets	\$ 15,636,607	\$ 5,660,145	\$ 10,332,354	\$ 31,629,106
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 615,863	\$ 439,601	\$ 99,731	\$ 1,155,195
Due to other funds	175,248	4,524	283,546	463,318
Deferred revenue	96,652	-	-	96,652
Current loans	2,763,576	-	-	2,763,576
Total Liabilities	3,651,339	444,125	383,277	4,478,741
Fund Balances:				
Nonspendable	440,992	-	81,950	522,942
Restricted	274,581	5,203,754	7,241,120	12,719,455
Committed	200,000	-	-	200,000
Assigned	3,416,798	12,266	2,626,007	6,055,071
Unassigned	7,652,897	-	-	7,652,897
Total Fund Balances	11,985,268	5,216,020	9,949,077	27,150,365
Total Liabilities and Fund Balances	\$ 15,636,607	\$ 5,660,145	\$ 10,332,354	\$ 31,629,106

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

SANTEE SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$27,150,365
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	\$ 148,653,095	
Accumulated depreciation is	<u>(21,914,312)</u>	
Net Capital Assets		126,738,783
Expenditures relating to issuance of debt are expensed in the governmental funds, however they are amortized over the life of the debt in the government-wide financial statements. The balance of the unamortized cost of issuance was:		
Cost of issuance		2,091,434
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(884,716)
Long-term obligations at year-end consist of:		
General obligation bonds	47,137,743	
Unamortized bond premium	1,449,336	
Certificates of participation	25,892,015	
Accumulated vacation	209,039	
Qualified Zone Academy Bond (QZAB)	5,000,000	
Other Postemployment Benefits (OPEB)	<u>1,278,224</u>	
Total Long-Term Obligations		<u>(80,966,357)</u>
Total Net Assets - Governmental Activities		<u><u>\$74,129,509</u></u>

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

SANTEE SCHOOL DISTRICT

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 31,667,645	\$ -	\$ -	\$ 31,667,645
Federal sources	2,859,538	-	1,281,713	4,141,251
Other State sources	7,823,589	-	2,631,094	10,454,683
Other local sources	4,768,731	54,878	4,729,862	9,553,471
Total Revenues	47,119,503	54,878	8,642,669	55,817,050
EXPENDITURES				
Current				
Instruction	32,912,743	-	213,690	33,126,433
Instruction-related activities:				
Supervision of instruction	596,036	-	21,220	617,256
Instructional library, media, and technology	747,545	-	-	747,545
School site administration	2,688,929	-	-	2,688,929
Pupil services:				
Home-to-school transportation	941,817	-	-	941,817
Food services	-	-	1,966,395	1,966,395
All other pupil services	2,027,187	-	-	2,027,187
Administration:				
Data processing	287,231	-	-	287,231
All other administration	3,033,374	-	137,482	3,170,856
Plant services	3,830,179	-	13,921	3,844,100
Facility acquisition and construction	3,031	24,056,427	313,215	24,372,673
Community services	262,341	-	-	262,341
Debt service				
Principal	-	-	307,111	307,111
Interest and other	40,589	-	2,680,559	2,721,148
Total Expenditures	47,371,002	24,056,427	5,653,593	77,081,022
Excess (Deficiency) of Revenues Over Expenditures	(251,499)	(24,001,549)	2,989,076	(21,263,972)
Other Financing Sources (Uses)				
Transfers in	2,400	2,379,348	1,629,501	4,011,249
Other sources	-	850	-	850
Transfers out	(802,510)	(2,400)	(3,226,036)	(4,030,946)
Net Financing Sources (Uses)	(800,110)	2,377,798	(1,596,535)	(18,847)
NET CHANGE IN FUND BALANCES	(1,051,609)	(21,623,751)	1,392,541	(21,282,819)
Fund Balances - Beginning	13,036,877	26,839,771	8,556,536	48,433,184
Fund Balances - Ending	\$ 11,985,268	\$ 5,216,020	\$ 9,949,077	\$ 27,150,365

SANTEE 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 **\$(21,282,819)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

This is the amount by which capital outlay exceeds depreciation in the period:

Capital outlay	\$ 24,289,736	
Depreciation expense	(1,152,248)	
Net Expense Adjustment		23,137,488

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits 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 used was more than the amounts earned by \$12,362. Special termination benefits used was more than amounts earned by \$2,596,333.

2,608,695

In governmental funds, repayments of long-term obligations are reported as expenditures. In the government-wide financial statements, repayments of long-term obligations are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term obligations were:

General obligation bonds	220,000
Certificates of participation	150,000

In the governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide financial statements, issue costs are amortized over the life of the debt. The issue costs amortized for the period were:

Amortization of debt premium	59,066	
Amortization of cost of issuance	(42,255)	
Combined adjustment		16,811

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

SANTEE SCHOOL DISTRICT

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

In the governmental funds, interest is recorded as an expenditure in the funds when it becomes due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by \$30,405, and second, General obligation bonds and certificates of participation reported an additional \$1,236,092 of accreted interest in the current fiscal year.

\$ (1,205,687)

In the Statement of Activities, Other Postemployment Benefits (OPEB) obligations are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by \$93,044.

(93,044)

Change in Net Assets of Governmental Activities

\$ 3,551,444

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

SANTEE SCHOOL DISTRICT

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

	Business-Type Activities
	Enterprise Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 224,086
Receivables	39,503
Due from other funds	41,623
Total Current Assets	305,212
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 25,620
Due to other funds	279,592
Total Current Liabilities	305,212
NET ASSETS	
Restricted	\$ -

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

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 2,429,953
OPERATING EXPENSES	
Payroll costs	2,226,441
Supplies and materials	138,503
Facility rental	20,430
Other operating cost	402,095
Total Operating Expenses	<u>2,787,469</u>
Operating Loss	<u>(357,516)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>1,052</u>
Loss Before Transfers	(356,464)
Transfers in	41,623
Transfers Out	<u>(21,926)</u>
Change in Net Assets	(336,767)
Total Net Assets - Beginning	<u>336,767</u>
Total Net Assets - Ending	<u>\$ -</u>

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

SANTEE SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities
	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 2,889,695
Cash payments for other operating expenses	(2,757,509)
Net Cash Provided by Operating Activities	<u>132,186</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Transfers in from other funds	<u>19,697</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>1,052</u>
Net Increase in Cash and Cash Equivalents	152,935
Cash and Cash Equivalents - Beginning	71,151
Cash and Cash Equivalents - Ending	<u><u>\$ 224,086</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (357,516)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Receivables	493,814
Due from other fund	(34,072)
Accounts payable	(5,650)
Due to other fund	35,610
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 132,186</u></u>

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

SANTEE SCHOOL DISTRICT

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

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 55,938
LIABILITIES	
Due to student groups	\$ 55,938

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santee School District (the District) was organized in 1893, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District operates one K-6 elementary school, eight K-8 elementary schools, and an alternative school 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 Santee 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 three broad fund categories: governmental, proprietary 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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund does not currently meet the definition of special revenue funds as this fund is no longer primarily composed of restricted or committed revenue sources.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

As the District has not taken formal action to commit the flexed revenue formerly restricted to this program to the continued operation of the original programs, the revenue within this fund would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$2,852,268, \$2,852,268, and \$13,107, respectively.

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.

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).

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).

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).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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).

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used for the repayment of certificates of participation and qualified zone academy bonds issued by the District.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has no internal service funds and the following enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Project SAFE and YALE Programs of the District.

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 four classifications: pension trust funds, investment trust funds, private-purpose 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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and 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.

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 balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include 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.

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

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 District's 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 District's 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 restrictions. 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 balance sheet and revenue is recognized.

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

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

Cash and Cash Equivalents

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

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 the County investment pool are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures 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 paid.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental-type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. 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.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund *Statement of Net Assets*. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

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

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/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

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 \$9,846,623 of restricted net assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are Project SAFE and YALE. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the *Statement of Activities*, except for the net residual amounts transferred between governmental and business-type 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 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

New Accounting Pronouncements

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

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

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

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier 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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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. Early implementation is encouraged.

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	\$ 18,546,134
Business-type activities	224,086
Fiduciary funds	<u>55,938</u>
Total Deposits and Investments	<u><u>\$ 18,826,158</u></u>

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

Cash on hand and in banks	\$ 449,230
Cash in revolving	15,000
Investments	<u>18,361,928</u>
Total Deposits and Investments	<u><u>\$ 18,826,158</u></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.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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	40%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the San Diego County Investment Pool.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
U.S. Treasuries	\$ 4,432,973	11/15/2020
Certificates of Deposit	1,099,546	11/19/2012
Federal Home Loan Bank Notes	445,458	11/26/2018
Municipal Bond	490,723	3/1/2014
Money Market Mutual Funds	68,071	N/A
San Diego County Investment Pool	11,808,349	370*
Total	<u>\$ 18,345,120</u>	

*Weighted average days to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the U.S. Treasuries, Certificates of Deposit, Federal Home Loan Bank Notes, Money Market Mutual Funds, and San Diego County Investment Pool are not required to be rated, nor have they been rated as of 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, the District's bank balance of \$484,919 was exposed to credit risk because \$166,852 was uninsured and collateralized with securities held by the pledging financial institutions trust department or agent, but not in the name of the District.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund
Federal Government					
Categorical aid	\$ 483,337	\$ -	\$ 265,714	\$ 749,051	\$ -
State Government					
Apportionment	8,284,973	-	-	8,284,973	-
Categorical aid	1,256,595	-	22,739	1,279,334	-
Lottery	471,885	-	-	471,885	-
Local Government					
Interest	7,168	5,146	1,724	14,038	208
Other local sources	1,049,295	-	25,167	1,074,462	39,295
Total	<u>\$ 11,553,253</u>	<u>\$ 5,146</u>	<u>\$ 315,344</u>	<u>\$ 11,873,743</u>	<u>\$ 39,503</u>

SANTEE 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	\$ 8,547,242	\$ -	\$ -	\$ 8,547,242
Construction in progress	70,091,374	24,020,229	93,444,215	667,388
Total Capital Assets Not Being Depreciated	<u>78,638,616</u>	<u>24,020,229</u>	<u>93,444,215</u>	<u>9,214,630</u>
Capital Assets Being Depreciated				
Land improvements	3,204,854	934,442	-	4,139,296
Buildings and improvements	36,171,145	92,509,773	-	128,680,918
Furniture and equipment	6,348,744	269,507	-	6,618,251
Total Capital Assets Being Depreciated	<u>45,724,743</u>	<u>93,713,722</u>	<u>-</u>	<u>139,438,465</u>
Total Capital Assets	<u>124,363,359</u>	<u>117,733,951</u>	<u>93,444,215</u>	<u>148,653,095</u>
Less Accumulated Depreciation				
Land improvements	2,409,727	49,982	-	2,459,709
Buildings and improvements	13,845,423	758,943	-	14,604,366
Furniture and equipment	4,506,914	343,323	-	4,850,237
Total Accumulated Depreciation Governmental Activities	<u>20,762,064</u>	<u>1,152,248</u>	<u>-</u>	<u>21,914,312</u>
Capital Assets, Net	<u>\$ 103,601,295</u>	<u>\$ 116,581,703</u>	<u>\$ 93,444,215</u>	<u>\$ 126,738,783</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 321,475
Instructional library, media, and technology	186,480
School site administration	45,020
Home-to-school transportation	26,649
Food services	80,869
All other pupil services	18,326
All other administration	36,427
Data processing	72,764
Plant services	364,238
Total Depreciation Expenses Governmental Activities	<u>\$ 1,152,248</u>

SANTEE 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 at June 30, 2012, between major and non-major governmental funds and non-major enterprise funds are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Enterprise Fund	
General Fund	\$ -	\$ 4,524	\$ 283,523	\$ 267,955	\$ 556,002
Building Fund	-	-	23	-	23
Non-Major Governmental Funds	133,625	-	-	11,637	145,262
Enterprise Fund	41,623	-	-	-	41,623
Total	<u>\$ 175,248</u>	<u>\$ 4,524</u>	<u>\$ 283,546</u>	<u>\$ 279,592</u>	<u>\$ 742,910</u>

Interfund receivable and payable balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Operating Transfers

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

Transfer To	Transfer From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 2,400	\$ -	\$ 2,400
Building Fund	63,509	-	2,315,839	2,379,348
Non-Major Governmental Funds	719,304	-	910,197	1,629,501
Project SAFE Enterprise Fund	19,697	-	-	19,697
Total	<u>\$ 802,510</u>	<u>\$ 2,400</u>	<u>\$ 3,226,036</u>	<u>\$ 4,030,946</u>

The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects to cover costs.	\$ 122,746
The General Fund transferred to the Non-Major Governmental Child Development Fund for cash flow purposes.	21,975
The General Fund transferred to the Building Fund to cover construction project costs.	63,509
The General Fund transferred to the Non-Major Governmental COP Debt Service Fund for debt service payments.	574,583
The General Fund transferred to the Enterprise Fund for cash flow purposes.	19,697
The Non-Major Governmental Cafeteria Fund transferred to the Building Fund to reimburse for costs of school kitchen modernization projects.	36,425
The Building Fund transferred to the General Fund to cover costs.	2,400
The Non-Major Governmental Capital Facilities Fund transferred to the Non-Major Governmental COP Debt Service Fund for debt service payments.	648,901
The Non-Major Governmental County School Facilities Fund transferred to the Building Fund to move OPSC funds received.	2,279,414
The Non-Major Governmental Special Reserve for Capital Outlay Projects Fund transferred to the Non-Major Governmental COP Debt Service Fund for debt service payments.	261,296
Total	<u>\$ 4,030,946</u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund
Vendor payables	\$ 179,427	\$ 3,023	\$ 19,734	\$ 202,184	\$ 642
Salaries and benefits	436,436	-	12,056	448,492	24,978
Construction	-	436,578	67,941	504,519	-
Total	<u>\$ 615,863</u>	<u>\$ 439,601</u>	<u>\$ 99,731</u>	<u>\$ 1,155,195</u>	<u>\$ 25,620</u>

NOTE 7 - DEFERRED REVENUE

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

	General Fund
State categorical aid	\$ 1,495
Other local	95,157
Total	<u>\$ 96,652</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$1,385,000 of Tax and Revenue Anticipation Notes dated July 2011. The notes mature on April 30, 2012, and yield 0.76 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2012, until 100 percent of principal and interest due is on account in April 2012. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the TRANS and related accrued interest and cash held in trust are not included in these financial statements.

NOTE 9 - COUNTY TREASURER TEMPORARY TRANSFER LOAN

The District received a Temporary Transfer loan of \$4,415,647 from the County Treasurer dated April 24, 2012. The Temporary Transfer loan matures on June 30, 2013, and yields the same interest rate the San Diego County Pool is earning, or the average overnight repo rate for each month until the entire loan is repaid. The transfer was requested to supplement cash flow in order to meet current payroll. Repayment of the loan shall first be made from the property taxes, and principal apportionment accruing to the District, before any other obligation of the District is met from such revenue. During the current year a payment of \$1,651,891 was made from property taxes and principal apportionment revenues. As of June 30, 2012, the balance outstanding from the Temporary Transfer loan was \$2,763,576. Final repayments are projected to be \$2,763,576 in 2012-2013.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 - 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	\$46,184,236	\$ 1,173,507	\$ 220,000	\$47,137,743	\$ 270,648
Premium on bonds	1,508,402	-	59,066	1,449,336	-
Certificates of participation	25,979,430	62,585	150,000	25,892,015	165,000
Accumulated vacation - net	221,401	-	12,362	209,039	-
CalSTRS Golden Handshake	2,596,333	-	2,596,333	-	-
Qualified Zone Academy					
Bond	5,000,000	-	-	5,000,000	-
OPEB obligation, net	1,185,180	1,386,151	1,293,107	1,278,224	-
	<u>\$82,674,982</u>	<u>\$ 2,622,243</u>	<u>\$ 4,330,868</u>	<u>\$80,966,357</u>	<u>\$ 435,648</u>

- Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund.
- Payments on the certificates of participation are made by the Debt Service Fund for Blended Component Units.
- Payments for accumulated vacation are typically liquidated in the fund for which the employee worked.
- Payments for the CalSTRS Golden Handshake are made by the General Fund.
- Payments for the OPEB obligation are made by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2011	Accretion	Redeemed	Outstanding June 30, 2012
April-07	August-31	3.50-5.00%	\$ 18,000,000	\$ 17,565,000	\$ -	\$ -	\$ 17,565,000
August-08	August-48	4.00-5.00%	12,385,077	12,386,335	111,437	190,000	12,307,772
August-08	August-33	3.01-5.90%	2,869,039	3,352,779	187,567	30,000	3,510,346
August-08	August-48	5.90-6.20%	7,840,155	9,296,706	575,690	-	9,872,396
May-11	May-51	6.90-8.10%	3,534,307	3,583,416	298,813	-	3,882,229
				<u>\$ 46,184,236</u>	<u>\$ 1,173,507</u>	<u>\$ 220,000</u>	<u>\$ 47,137,743</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

General Obligation Bonds

In November 2006, the qualified electorate of the Santee School District approved the issuance and sale of General Obligation Bonds of \$60,000,000. The first issuance of Current Interest Bonds Series A in the amount of \$18,000,000 occurred in April 2007. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2031, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2008. At June 30, 2012, the principal balance outstanding was \$17,565,000.

In August 2008, the District issued \$1,145,077 of Capital Appreciation Bonds Series B and \$11,240,000 of Current Interest Bonds Series B. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2048, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2012, the principal balance outstanding was \$12,307,772.

In August 2008, the District issued \$2,869,039 of Capital Appreciation Bonds Series C. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2033, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2012, the principal balance outstanding was \$3,510,346.

In August 2008, the District issued \$7,840,155 of Capital Appreciation Bonds Series D. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2048, with semi-annual interest payments due February 1 and August 1 each year, commencing February 1, 2009. At June 30, 2012, the principal balance outstanding was \$9,872,396.

In May 2011, the District issued \$3,534,307 of Capital Appreciation Bonds Series E. The proceeds were used to finance the addition and modernization of school facilities. Taxes are collected by the San Diego County Tax Assessor for payment of principal and interest. The bonds mature each August 1 through August 2046, with the final maturity payment being made on May 1, 2051. At June 30, 2012, the principal balance outstanding was \$3,882,230.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Debt Service Requirements to Maturity

The bonds mature through 2050 as follows:

Fiscal Year	Principal	Interest to Maturity	Principal Accretion	Total
2013	\$ 270,648	\$ 1,388,181	\$ 1,230,744	\$ 2,889,573
2014	316,034	1,385,981	1,288,481	2,990,496
2015	368,055	1,381,781	1,347,861	3,097,697
2016	441,306	1,375,380	1,414,259	3,230,945
2017	507,340	1,366,480	1,485,042	3,358,862
2018-2022	3,936,434	6,576,936	8,686,375	19,199,745
2023-2027	6,981,072	5,577,094	11,734,305	24,292,471
2028-2032	11,392,373	3,527,312	15,904,180	30,823,865
2033-2037	3,436,654	1,868,750	19,561,844	24,867,248
2038-2042	6,992,647	1,365,000	20,646,984	29,004,631
2043-2047	7,041,568	721,375	20,411,234	28,174,177
2048-2051	5,453,612	69,625	13,995,948	19,519,185
Total	<u>\$ 47,137,743</u>	<u>\$ 26,603,895</u>	<u>\$ 117,707,257</u>	<u>\$ 191,448,895</u>

Certificates of Participation

The certificates of participation are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2011	Accretion	Redeemed	Outstanding June 30, 2012
September-08	October-49	3.25-5.75%	\$ 23,699,849	\$ 23,854,430	\$ 62,585	\$ 10,000	\$ 23,907,015
June-10	June-25	2.315-7.160%	2,260,000	2,125,000	-	140,000	1,985,000
				<u>\$ 25,979,430</u>	<u>\$ 62,585</u>	<u>\$ 150,000</u>	<u>\$ 25,892,015</u>

During September 2008, the District issued \$23,699,849 in certificates of participation for the purpose of financing the acquisition, construction, installation, modernization, and equipping of improvements to various District facilities. The District is required to make lease payments of principal and interest in conjunction with these certificates of participation. Interest rates range from 3.25 percent to 5.75 percent. Interest is due and payable semi-annually on April 1 and October 1, commencing on April 1, 2009. The outstanding principal balance at June 30, 2012, was \$23,907,015.

During June 2010, the District issued \$2,260,000 in certificates of participation for the purpose of constructing and installing certain solar energy improvements located at the District's Hill Creek Elementary School. The District is required to make lease payments of principal and interest in conjunction with these certificates of participation. Interest rates range from 2.315 percent to 7.160 percent. Interest is due and payable semi-annually on June 1 and December 1, commencing on December 1, 2010. Principal is payable annually on June 1, commencing on June 1, 2011. The outstanding principal balance at June 30, 2012, was \$1,985,000.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Payments are required as follows:

Fiscal Year	Principal	Interest to Maturity	Principal Accretion	Total
2013	\$ 165,000	\$ 1,340,932	\$ 66,372	\$ 1,572,304
2014	180,000	1,334,842	70,389	1,585,231
2015	200,000	1,327,186	74,648	1,601,834
2016	220,000	1,318,238	79,166	1,617,404
2017	245,000	1,307,499	83,957	1,636,456
2018-2022	1,620,000	6,320,214	502,444	8,442,658
2023-2027	1,526,896	5,859,592	581,085	7,967,573
2028-2032	1,080,119	5,747,963	204,924	7,033,006
2033-2037	3,355,000	5,230,291	-	8,585,291
2038-2042	5,265,000	4,080,713	-	9,345,713
2043-2047	7,940,000	2,286,625	-	10,226,625
2048-2050	4,095,000	228,388	-	4,323,388
Total	\$ 25,892,015	\$ 36,382,481	\$ 1,662,985	\$ 63,937,481

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$209,039.

CalSTRS Golden Handshake/PARS

The District has adopted an early retirement program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the California State Teachers' Retirement System (CalSTRS) and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

The District has also offered a TSA through PARS during 2007-2008 and 2009-2010. Final payment of \$2,596,333 was made in 2011-2012.

Qualified Zone Academy Bond

In November 2005, the District issued \$5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 1, 2020. As of June 30, 2012, Chase Bank held \$3,227,904 for payment of principal.

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$1,326,892, and contributions made by the District during the year were \$1,216,009. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$59,259 and \$(77,098), respectively, which resulted in an increase to the net OPEB obligation of \$93,044. As of June 30, 2012, the net OPEB obligation was \$1,278,224. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 15,000
Stores inventories	50,327	-	81,950	132,277
Prepaid expenditures	375,665	-	-	375,665
Total Nonspendable	<u>440,992</u>	<u>-</u>	<u>81,950</u>	<u>522,942</u>
Restricted				
Legally restricted programs	274,581	-	546,851	821,432
Capital projects	-	5,203,754	205,216	5,408,970
Debt services	-	-	6,489,053	6,489,053
Total Restricted	<u>274,581</u>	<u>5,203,754</u>	<u>7,241,120</u>	<u>12,719,455</u>
Committed				
Other committed	200,000	-	-	200,000
Total Committed	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Assigned				
Other assignments	3,416,798	12,266	2,626,007	6,055,071
Total Assigned	<u>3,416,798</u>	<u>12,266</u>	<u>2,626,007</u>	<u>6,055,071</u>
Unassigned				
Economic uncertainties	1,409,116	-	-	1,409,116
Remaining unassigned	6,243,781	-	-	6,243,781
Total Unassigned	<u>7,652,897</u>	<u>-</u>	<u>-</u>	<u>7,652,897</u>
Total	<u>\$ 11,985,268</u>	<u>\$ 5,216,020</u>	<u>\$ 9,949,077</u>	<u>\$ 27,150,365</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 Santee School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 128 retirees currently receiving benefits, as well as 528 active employees who may become eligible to retire and receive benefits in the future.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and 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. For fiscal year 2011-2012, the District contributed \$1,216,009 to the Plan.

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	\$ 1,326,892
Interest on net OPEB obligation	59,259
Adjustment to annual required contribution	<u>(77,098)</u>
Annual OPEB cost (expense)	1,309,053
Contributions made	<u>(1,216,009)</u>
Decrease in net OPEB obligation	93,044
Net OPEB obligation, beginning of year	<u>1,185,180</u>
Net OPEB obligation, end of year	<u><u>\$ 1,278,224</u></u>

SANTEE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,681,977	\$ 173,818	10%	\$ 2,541,443
2011	1,655,659	3,011,922	182%	1,185,180
2012	1,309,053	1,216,009	93%	1,278,224

Funded Status and Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
July 1, 2011	\$ -	\$ 12,027,903	\$ 12,027,903	0%	\$ 30,823,863	39%

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 July 1, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a five percent discount rate. Healthcare cost trend rates ranged from an initial eight percent to an ultimate rate of five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2011, was 26 years.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 13 - RISK MANAGEMENT

Workers' Compensation

For fiscal year 2012, the District participated in the San Diego County Office of Education (SDCOE) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the SDCOE JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SDCOE JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in SDCOE JPA. Each participant pays its workers' compensation premium based on its individual rate.

Property and Liability

The District is exposed to various risk 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 was a member of the San Diego County Office of Education (SDCOE) joint powers authority for property and liability insurance coverage.

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 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 California State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 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 \$1,980,444, \$2,359,109, and \$2,079,875, respectively, and equal 100 percent of the required contributions for each year.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 California 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 2011-2012 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 \$684,912, \$785,701, and \$740,580, respectively, and equal 100 percent of the required contributions for each year.

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 \$1,224,907 (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. However, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

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 as its alternative plan.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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.

NOTE 16 - PARTICPATION IN JOINT POWERS AGENCY

The District is a member of the San Diego County Office of Education (SDCOE) JPA. The District pays an annual premium to this entity for its workers' compensation coverage. The relationship between the District and the JPA is such that it is not component units of the District for financial reporting purposes.

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

The District has appointed a representative to the governing board of the SDCOE JPA. During the year ended June 30, 2012, the District paid \$211,620 to SDCOE JPA for workers' compensation.

As of June 30, 2012, the District had residual balances held by Southern California Regional Liability Excess Fund (SoCal ReLiEF) joint powers agency for payment of future claims. The balances for property and liability and workers' compensation claims were \$308,664 and \$116,587 respectively.

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

SANTEE SCHOOL DISTRICT

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

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances -</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u>
				<u>(Negative)</u>
				<u>Final to Actual</u>
REVENUES				
Revenue limit sources	\$ 29,028,636	\$ 31,745,229	\$ 31,667,645	\$ (77,584)
Federal sources	2,785,266	2,948,190	2,859,538	(88,652)
Other State sources	6,220,679	6,569,943	7,823,589	1,253,646
Other local sources	3,444,187	4,708,662	4,768,731	60,069
Total Revenues ¹	<u>41,478,768</u>	<u>45,972,024</u>	<u>47,119,503</u>	<u>1,147,479</u>
EXPENDITURES				
Current				
Certificated salaries	24,217,681	23,921,992	24,019,012	(97,020)
Classified salaries	6,724,873	6,727,485	6,678,246	49,239
Employee benefits	7,980,895	11,121,418	12,049,706	(928,288)
Books and supplies	1,399,434	2,303,917	1,606,081	697,836
Services and operating expenditures	3,351,210	3,475,940	2,369,757	1,106,183
Capital outlay	71,356	64,646	73,617	(8,971)
Other outgo	721,385	471,269	-	471,269
Debt service - interest	-	-	574,583	(574,583)
Total Expenditures ¹	<u>44,466,834</u>	<u>48,086,667</u>	<u>47,371,002</u>	<u>715,665</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,988,066)</u>	<u>(2,114,643)</u>	<u>(251,499)</u>	<u>1,863,144</u>
Other Financing Sources (Uses)				
Transfers in	20,170	24,327	2,400	(21,927)
Transfers out	(391,973)	(212,279)	(802,510)	(590,231)
Net Financing Sources (Uses)	<u>(371,803)</u>	<u>(187,952)</u>	<u>(800,110)</u>	<u>(612,158)</u>
NET CHANGE IN FUND BALANCE	<u>(3,359,869)</u>	<u>(2,302,595)</u>	<u>(1,051,609)</u>	<u>1,250,986</u>
Fund Balance - Beginning	<u>13,036,877</u>	<u>13,036,877</u>	<u>13,036,877</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 9,677,008</u>	<u>\$ 10,734,282</u>	<u>\$ 11,985,268</u>	<u>\$ 1,250,986</u>

¹ On behalf payments of \$1,224,907 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

SANTEE 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 Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2009	\$ -	\$ 14,486,779	\$ 14,486,779	0%	\$ 33,426,754	43%
July 1, 2011	-	12,027,903	12,027,903	0%	30,823,863	39%

SUPPLEMENTARY INFORMATION

SANTEE SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 1,098,843
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	70,955
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	116,962
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	23,070
Preschool Staff Development, Part B, Section 619	84.173A	13431	483
Total Special Education (IDEA) Cluster			1,310,313
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster:			
Title I, Part A, Basic Grants Low-Income and Neglected - Reallocation Funds	84.010	14981	514,045
Title I, Part A, ARRA Basic Grants Low Income and Neglected	84.389	15005	26,165
Total Title I, Part A Cluster			540,210
Education Jobs Fund (SB 847)	84.410	25152	142,309
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	187,971
Title II, Part B, California Mathematics and Science Partnerships	84.366	14512	63,966
Title III Cluster:			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	47,016
Title III, Immigrant Education Program	84.365	15146	11,300
Total Title III Cluster			58,316
Federal Impact Aid: Maintenance and Operations (ESEA, Title VIII)	84.041	10015	95,264
Santee Cares	84.215E	[2]	406,291
Total U.S. Department of Education			2,804,640

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13525	\$ 26,740
Especially Needy Breakfast	10.553	13526	188,572
National School Lunch Program	10.555	13524	955,746
Food Distribution	10.555	13524	<u>110,655</u>
Total U.S. Department of Agriculture			<u>1,281,713</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	41,934
Medi-Cal Administrative Activities Program	93.778	10060	<u>8,098</u>
Total U.S. Department of Health and Human Services			<u>50,032</u>
Total Federal Programs			<u>\$ 4,136,385</u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Santee School District was established in 1893, and consists of an area comprising approximately 16.56 square miles. The District operates one K-6 elementary school, eight K-8 elementary schools, and an alternative school program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dan Bartholomew	President	December 7, 2012
Dianne El-Hajj	Vice President	December 7, 2012
Ken Fox	Clerk	December 5, 2014
Dustin Burns	Member	December 5, 2014
Barbara Ryan	Member	December 5, 2014

ADMINISTRATION

Dr. Patrick Shaw	Superintendent
Karl Christensen	Assistant Superintendent, Business Services

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	711	735
First through third	2,002	2,003
Fourth through sixth	1,926	1,923
Seventh and eighth	1,396	1,392
Community Day Schools	6	7
Home and hospital	4	3
Special education	220	219
Total Elementary	<u>6,265</u>	<u>6,282</u>

See accompanying note to supplementary information.

SANTEE 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	31,500	29,400	36,000	33,600	45,120	180	-	Complied
Grades 1 - 3	47,250	44,100	50,400	47,040				
Grade 1					51,570	180	-	Complied
Grade 2					51,570	180	-	Complied
Grade 3					51,570	180	-	Complied
Grades 4 - 6	55,125	51,450	54,000	50,400				
Grade 4					55,910	180	-	Complied
Grade 5					55,910	180	-	Complied
Grade 6					55,910	180	-	Complied
Grades 7 - 8	57,990	54,124	54,000	50,400				
Grade 7					58,520	180	-	Complied
Grade 8					58,520	180	-	Complied

See accompanying note to supplementary information.

SANTEE 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.

SANTEE SCHOOL DISTRICT

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

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND ⁴				
Revenues	\$ 41,478,768	\$ 47,119,503	\$ 47,844,917	\$ 47,616,301
Other financing sources and transfers in	20,170	2,400	-	50,538
Total Revenues and Other Sources	41,498,938	47,121,903	47,844,917	47,666,839
Expenditures	44,466,834	47,371,002	44,099,525	46,706,889
Other uses and transfers out	391,973	802,510	452,405	294,711
Total Expenditures and Other Uses	44,858,807	48,173,512	44,551,930	47,001,600
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,359,869)	\$ (1,051,609)	\$ 3,292,987	\$ 665,239
ENDING FUND BALANCE	\$ 8,625,399	\$ 11,985,268	\$ 13,036,877	\$ 6,919,059
AVAILABLE RESERVES ²	\$ 4,294,399	\$ 7,652,897	\$ 11,942,647	\$ 8,622,960
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	9.6%	16.73%	27.41%	18.83%
LONG-TERM OBLIGATIONS	N/A	\$ 80,966,357	\$ 82,674,982	\$ 79,036,955
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,265	6,265	6,171	6,210

The General Fund balance has increased by \$5,066,209 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$3,359,869 (25.43 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$2,134,569 over the past two years.

Average daily attendance has increased by 55 over the past two years. No change ADA is anticipated during fiscal year 2012-2013.

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 and all funds reserved for economic uncertainty contained within the General Fund and Special Reserve Fund for Other Than Capital Outlay.

³ On behalf payments of \$1,224,907, \$977,398, and \$1,076,556, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012, 2011, and 2010, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay Projects, and the Deferred Maintenance Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS				
Deposits and investments	\$ 32,582	\$ 485,497	\$ 1,496,878	\$ -
Receivables	18	290,878	1,166	23
Due from other funds	-	15,134	130,128	-
Stores inventories	-	81,950	-	-
Total Assets	\$ 32,600	\$ 873,459	\$ 1,628,172	\$ 23
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,038	\$ 11,833	\$ 68,582	\$ -
Due to other funds	30,562	232,825	136	23
Total Liabilities	32,600	244,658	68,718	23
Fund Balances:				
Nonspendable	-	81,950	-	-
Restricted	-	546,851	-	-
Assigned	-	-	1,559,454	-
Total Fund Balances	-	628,801	1,559,454	-
Total Liabilities and Fund Balances	\$ 32,600	\$ 873,459	\$ 1,628,172	\$ 23

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ 219,235	\$ 1,066,553	\$ 6,489,053	\$ 9,789,798
23,259	-	-	315,344
-	-	-	145,262
-	-	-	81,950
<u>\$ 242,494</u>	<u>\$ 1,066,553</u>	<u>\$ 6,489,053</u>	<u>\$ 10,332,354</u>
\$ 17,278	\$ -	\$ -	\$ 99,731
20,000	-	-	283,546
<u>37,278</u>	<u>-</u>	<u>-</u>	<u>383,277</u>
-	-	-	81,950
205,216	-	6,489,053	7,241,120
-	1,066,553	-	2,626,007
<u>205,216</u>	<u>1,066,553</u>	<u>6,489,053</u>	<u>9,949,077</u>
<u>\$ 242,494</u>	<u>\$ 1,066,553</u>	<u>\$ 6,489,053</u>	<u>\$ 10,332,354</u>

SANTEE 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	Capital Facilities Fund	County School Facilities Fund
REVENUES				
Federal sources	\$ -	\$ 1,281,713	\$ -	\$ -
Other State sources	223,750	99,966	-	2,279,414
Other local sources	116	613,575	1,083,646	-
Total Revenues	<u>223,866</u>	<u>1,995,254</u>	<u>1,083,646</u>	<u>2,279,414</u>
EXPENDITURES				
Current				
Instruction	213,690	-	-	-
Instruction-related activities:				
Supervision of instruction	21,220	-	-	-
Pupil services:				
Food services	-	1,966,395	-	-
Administration:				
All other administration	19,004	88,478	30,000	-
Plant services	-	1,800	-	-
Facility acquisition and construction	-	199,744	98,962	-
Debt service				
Principal	-	-	10,000	-
Interest and other	-	-	(10,000)	-
Total Expenditures	<u>253,914</u>	<u>2,256,417</u>	<u>128,962</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(30,048)</u>	<u>(261,163)</u>	<u>954,684</u>	<u>2,279,414</u>
Other Financing Sources (Uses)				
Transfers in	21,975	-	-	-
Other sources	-	-	-	-
Transfers out	-	(36,425)	(648,901)	(2,279,414)
Net Financing Sources (Uses)	<u>21,975</u>	<u>(36,425)</u>	<u>(648,901)</u>	<u>(2,279,414)</u>
NET CHANGE IN FUND BALANCES	<u>(8,073)</u>	<u>(297,588)</u>	<u>305,783</u>	<u>-</u>
Fund Balances - Beginning	<u>8,073</u>	<u>926,389</u>	<u>1,253,671</u>	<u>-</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 628,801</u>	<u>\$ 1,559,454</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,281,713
-	27,964	-	2,631,094
254,762	1,673,136	1,104,627	4,729,862
<u>254,762</u>	<u>1,701,100</u>	<u>1,104,627</u>	<u>8,642,669</u>
-	-	-	213,690
-	-	-	21,220
-	-	-	1,966,395
-	-	-	137,482
12,121	-	-	13,921
14,509	-	-	313,215
-	157,111	140,000	307,111
-	1,456,169	1,234,390	2,680,559
<u>26,630</u>	<u>1,613,280</u>	<u>1,374,390</u>	<u>5,653,593</u>
<u>228,132</u>	<u>87,820</u>	<u>(269,763)</u>	<u>2,989,076</u>
122,746	-	1,484,780	1,629,501
-	-	-	-
<u>(261,296)</u>	<u>-</u>	<u>-</u>	<u>(3,226,036)</u>
<u>(138,550)</u>	<u>-</u>	<u>1,484,780</u>	<u>(1,596,535)</u>
89,582	87,820	1,215,017	1,392,541
115,634	978,733	5,274,036	8,556,536
<u>\$ 205,216</u>	<u>\$ 1,066,553</u>	<u>\$ 6,489,053</u>	<u>\$ 9,949,077</u>

SANTEE 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 in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2012.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 4,141,251
Medi-Cal Billing Option	93.778	<u>(4,866)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,136,385</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.

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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
Santee School District
Santee, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santee School District as of and for the year ended June 30, 2012, which collectively comprise Santee School District's basic financial statements and have issued our report thereon dated December 14, 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 Santee School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Santee 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 Santee School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santee 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We noted certain matters that we reported to management of Santee School District in a separate letter dated December 14, 2012.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 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
Santee School District
Santee, California

Compliance

We have audited Santee 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 Santee School District's major Federal programs for the year ended June 30, 2012. Santee 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 Santee School District's management. Our responsibility is to express an opinion on Santee 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 Santee 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 Santee School District's compliance with those requirements.

In our opinion, Santee 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 Santee 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 Santee 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 Santee 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 previously.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Santee School District
 Santee, California

We have audited Santee School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011-2012*, applicable to Santee 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 Santee School District's management. Our responsibility is to express an opinion on Santee 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 2011-2012*, 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 Santee 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 Santee School District's compliance with those requirements.

In our opinion, Santee 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.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No, see below
Continuation education	10	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
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	Yes
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 as the ADA fell below the threshold that required 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, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTEE 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 weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<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 program

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553 and 10.555</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
-------------------------------------------------------------	--------------------

SANTEE SCHOOL DISTRICT

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

None reported.

SANTEE SCHOOL DISTRICT

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

None reported.

SANTEE SCHOOL DISTRICT

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

None reported.

SANTEE SCHOOL DISTRICT

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

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



Governing Board
Santee School District
Santee, California

In planning and performing our audit of the financial statements of the Santee School District (the 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 an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2012, on the financial statements of the District.

DISTRICT OFFICE

Observation

The auditor noted an internal control weakness regarding procedures over District issued credit cards (P-Cards). There was activity in excess of \$700,000 in expenditures through the use of P-Cards. The District has issued approximately 72 P-Cards to authorized employees with monthly limits varying from \$1,000 - \$10,000. The P-Card program has the ability to limit each card to a specified dollar amount or a number of transactions per day, per week, per month, or even by transaction type. The District is not taking advantage of these control features, despite the fact that the frequency and amount of purchases vary significantly from cardholder to cardholder. Authorized P-Card holders are required to sign a cardholder agreement ensuring an employee is liable for any inappropriate charges, as well as reconcile their monthly expenditures by account code and provide original receipt copies to the District on a monthly basis. However, there is no authorization of expenditures prior to purchase and the auditor noted the general District disbursement approval process is being bypassed.

Recommendation

We recommend that the District consider reducing the total amounts of outstanding cards and limiting them to only management level positions. Also consider establishing new dollar limits per transaction and per month for each card. Considerations for proposing appropriate dollar limits on each card include historical transaction frequency and amounts, job responsibilities and level of employee. The District should also eliminate cards which are not being used. In order to strengthen internal the District should have the proper backup documentation in order to reconcile with statement and have proper review and approval of backup documentation prior to payment to ensure allowable expenses are being purchased.

To the Governing Board
Santee School District

REVENUE POTENTIAL - CHET F. HARRITT SCHOOL AND PEPPER DRIVE SCHOOL

Observation

The revenue potential forms are not completed at the site. We found that the majority of them are not completed or are completed incorrectly.

Recommendation

Revenue earned in the ASB fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. Increased internal control procedures over these activities will assist the District in decreasing the risk of potential losses of the student body funds. One important internal control feature is the Revenue Potential Form. The revenue potential form is important because it shows whether or not all the monies that should have been raised and turned in actually were, based on the price of the item and number sold. The form is also used to document overages and shortages or losses of merchandise. A secondary tool that the form accomplishes is to allow the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The site administrator should ensure that these forms are completed and turned in to the bookkeeper at the conclusion of the fundraiser.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 14, 2012