

CAMBRIAN SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2012

CAMBRIAN SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cambrian School District
San Jose, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Cambrian 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, each major fund and the aggregate remaining fund information of the Cambrian School District, as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 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 required supplementary information, such as management's discussion and analysis and budgetary comparison information as listed in the table of contents 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 accompanying supplementary information, such as the schedule of expenditures and 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), is 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 accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.



Palo Alto, California
December 3, 2012

CAMBRIAN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

This section of Cambrian School District's 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. 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 Cambrian School District (the District) using the integrated approach as prescribed by GASB Statement Number 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. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

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

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

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

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

The primary unit of the government is the Cambrian School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

CAMBRIAN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, the associated student body activities. 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.

CAMBRIAN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$35,852,480 for the fiscal year ended June 30, 2012. Of this amount, \$9,432,485 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2011/2012	2010/2011
Current and other assets	\$ 27,599,892	\$ 27,188,890
Capital assets	29,825,887	31,533,766
Total Assets	57,425,779	58,722,656
Current liabilities	1,275,780	1,435,245
Long-term debt	20,297,519	20,458,230
Total Liabilities	21,573,299	21,893,475
Net Assets		
Invested in capital assets,	9,645,214	11,160,180
Net of related debt		
Restricted	1,072,041	1,625,511
Unrestricted	25,135,225	24,043,490
Total Net Assets	\$ 35,852,480	\$ 36,829,181

The \$25,135,225 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations for all District funds combined and available reserves.

CAMBRIAN 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*. 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	
	2011/2012	2010/2011
Revenues		
Program revenues:		
Charges for services	\$ 401,530	\$ 388,724
Operating grants and contributions	3,073,425	2,761,451
General Revenues		
Federal and State aid	9,414,923	9,405,490
Property taxes	13,417,085	13,230,098
Other general revenues	2,115,737	1,919,681
Total Revenues	28,422,700	27,705,444
Expenses		
Instruction related	21,644,889	20,192,446
Student support services	1,997,941	1,774,853
Administration	2,112,092	1,774,968
Maintenance and operations	2,699,823	2,336,529
Other	944,656	958,766
Total Expenses	29,399,401	27,037,562
Change in Net Assets	\$ (976,701)	\$ 667,882

Governmental Activities

As reported in the Statement of Activities in the audited financial statements, the cost of all of our governmental activities this year was \$29,399,401. The amount that our taxpayers ultimately financed for these activities through local taxes, and other revenues was \$25,924,446.

CAMBRIAN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

In Table 3, we have presented the net cost of each of the District's largest functions. Net cost of services shows the financial burden that was primarily placed on the District's taxpayers by each of these functions.

Table 3

	Net Cost of Services	
	2011/2012	2010/2011
Instruction and instruction related	\$ 19,089,818	\$ 17,936,880
Pupil services	1,078,257	880,244
General administration	2,112,092	1,774,968
Maintenance and operations	2,699,623	2,336,529
Other	944,656	958,766
Totals	\$ 25,924,446	\$ 23,887,387

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$26.5 million which is a slight increase of approximately \$0.6 million from last year. This increase is a result of a variety of relatively small positive revenue and expenditure variances throughout the budget.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$44.5 million in a broad range of capital assets. Accumulated depreciation was \$14.7 million. This amount represents a net decrease (including additions, deductions and depreciation) of \$1.7 million or 5.42% over last year.

Long-Term Obligations

At the end of this year, the District had \$20,180,673 in outstanding bonds. Lease revenue bond obligations for leased daycare relocatable buildings were paid off during the year.

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in the notes to the financial statements.

CAMBRIAN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012-2013 fiscal year, the District board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. A slight increase in ADA due to recent trends.
2. Federal revenues are lower reflecting the exhaustion of stimulus funds.
3. Developer fee revenues are estimated based on the history of actual fees collected.
4. Other State revenues have been reduced to account for larger K-3 classes and therefore reduced class size reduction revenues.
5. Local revenues have been reduced primarily to reflect the practice of not recognizing local revenues before an award letter has been received.

Expenditures are based on existing programs. Regular education staffing has been reduced to reflect an increase in K-3 class sizes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Financial Officer, Business Services, at Cambrian School District, 4115 Jackson Drive, San Jose, California, 95124.

CAMBRIAN SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	\$ 23,134,792
Receivables	4,284,142
Prepaid expenses	9,218
Deferred charges	171,740
Capital assets, net of accumulated depreciation	29,825,887
Total Assets	57,425,779
LIABILITIES	
Accounts payable	818,956
Interest payable	315,971
Due to other governments	78,395
Deferred revenue	62,458
Current portion of long-term obligations	616,846
Noncurrent portion of long-term obligations	19,680,673
Total Liabilities	21,573,299
NET ASSETS	
Invested in capital assets, net of related debt	9,645,214
Restricted for:	
Debt service	507,432
Capital outlay	128,791
Legally restricted	435,818
Unrestricted	25,135,225
Total Net Assets	\$ 35,852,480

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

CAMBRIAN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 19,435,841	\$ -	\$ 2,532,978	\$ (16,902,863)
Instruction-related activities:				
Supervision of instruction	601,947	-	21,384	(580,563)
Instructional library, media, and technology	163,941	-	352	(163,589)
School site administration	1,443,160	-	357	(1,442,803)
Pupil services:				
Home-to-school transportation	230,202	-	19,784	(210,418)
Food services	837,862	401,530	381,259	(55,073)
All other pupil services	929,877	-	117,111	(812,766)
General administration:				
Data processing	556,559	-	-	(556,559)
All other general administration	1,555,533	-	-	(1,555,533)
Plant services	2,626,950	-	200	(2,626,750)
Facility acquisition and construction	72,873	-	-	(72,873)
Interest on long-term obligations	944,656	-	-	(944,656)
Total Governmental-Type Activities	\$ 29,399,401	\$ 401,530	\$ 3,073,425	(25,924,446)
General revenues and subventions:				
Property taxes, levied for general purposes				11,509,408
Property taxes, levied for debt service				1,108,426
Taxes levied for other specific purposes				799,251
Federal and state aid not restricted to specific purposes				9,414,923
Interest and investment earnings				183,464
Miscellaneous				1,932,273
Subtotal, General Revenues				24,947,745
Change in Net Assets				(976,701)
Net Assets - Beginning				36,829,181
Net Assets - Ending				\$ 35,852,480

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

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CAMBRIAN SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2012

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 6,467,933	\$ 8,778,695	\$ 6,826,603
Receivables	4,163,431	41,507	10,504
Due from other funds	-	-	123,319
Prepaid expenditures	9,218	-	-
Total Assets	\$ 10,640,582	\$ 8,820,202	\$ 6,960,426
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 677,461	\$ -	\$ 88,506
Due to other funds	123,319	-	-
Due to other governments	78,395	-	-
Deferred revenue	62,458	-	-
Total Liabilities	941,633	-	88,506
Fund Balances:			
Nonspendable	10,618	-	-
Restricted	219,076	-	-
Assigned	-	8,820,202	6,871,920
Unassigned	9,469,255	-	-
Total Fund Balances	9,698,949	8,820,202	6,871,920
Total Liabilities and Fund Balances	\$ 10,640,582	\$ 8,820,202	\$ 6,960,426

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 1,061,561	\$ 23,134,792
68,700	4,284,142
-	123,319
-	9,218
<u>\$ 1,130,261</u>	<u>\$ 27,551,471</u>
\$ 52,989	\$ 818,956
-	123,319
-	78,395
-	62,458
<u>52,989</u>	<u>1,083,128</u>
258	10,876
996,938	1,216,014
80,076	15,772,198
-	9,469,255
<u>1,077,272</u>	<u>26,468,343</u>
<u>\$ 1,130,261</u>	<u>\$ 27,551,471</u>

CAMBRIAN SCHOOL DISTRICT

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

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

Total Fund Balance - Governmental Funds \$ 26,468,343

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	\$ 44,482,972	
Accumulated depreciation is	<u>(14,657,085)</u>	29,825,887

Bond issuance costs are expensed in governmental funds but are capitalized as deferred charges and amortized over the life of the debt in the government-wide statements.

171,740

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.

(315,971)

Long-term liabilities at year end consist of:

General obligation bonds	20,180,673	
Compensated absences (vacations)	<u>116,846</u>	<u>(20,297,519)</u>
Total Net Assets - Governmental Activities		<u>\$ 35,852,480</u>

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

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CAMBRIAN SCHOOL DISTRICT

GOVERNMENTAL FUNDS

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

	General Fund	Building Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	\$ 17,124,607	\$ -	\$ -
Federal sources	1,720,624	-	-
Other state sources	4,727,079	-	-
Other local sources	2,682,085	77,548	170,840
Total Revenues	26,254,395	77,548	170,840
EXPENDITURES			
Current			
Instruction	18,158,782	-	-
Instruction-related activities:			
Supervision of instruction	560,971	-	-
Instructional library, media and technology	152,781	-	-
School site administration	1,344,920	-	-
Pupil Services:			
Home-to-school transportation	214,532	-	-
Food services	-	-	-
All other pupil services	866,578	-	-
General administration:			
Data processing	518,673	-	-
All other general administration	1,416,778	-	-
Plant services	2,350,367	276,583	-
Facility acquisition and construction	43,900	-	17,469
Debt service			
Principal	40,000	-	-
Interest and other	1,950	-	-
Total Expenditures	25,670,232	276,583	17,469
NET CHANGE IN FUND BALANCES	584,163	(199,035)	153,371
Fund Balance - Beginning	9,114,786	9,019,237	6,718,549
Fund Balance - Ending	\$ 9,698,949	\$ 8,820,202	\$ 6,871,920

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 17,124,607
322,834	2,043,458
48,921	4,776,000
1,548,162	4,478,635
1,919,917	28,422,700
-	18,158,782
-	560,971
-	152,781
-	1,344,920
-	214,532
780,826	780,826
-	866,578
-	518,673
-	1,416,778
-	2,626,950
11,504	72,873
455,000	495,000
637,848	639,798
1,885,178	27,849,462
34,739	573,238
1,042,533	25,895,105
\$ 1,077,272	\$ 26,468,343

CAMBRIAN 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

Amounts Reported for Governmental Activities in the Statement of

Total Net Change in Fund Balances - Governmental Funds	\$ 573,238
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are capitalized in the statement of net assets and depreciated over their estimated useful lives in the statement of activities.

This is the amount by which depreciation exceeds capital outlays in the period.	(1,707,879)
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(32,202)
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Amortization of bond issuance costs is an expense in the statement of activities, but is not recorded in the governmental funds.	(10,733)
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Repayment of lease revenue bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	40,000
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Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	455,000
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Accretion of interest expense on the capital appreciation bonds is recorded as an expense in the government-wide statement of activities, but is not recorded in the governmental funds.	(302,087)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is 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 net change of interest accrued but not yet due.

	<u>7,962</u>
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Change in Net Assets of Governmental Activities	<u>\$ (976,701)</u>
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The accompanying notes are an integral part of these financial statements.

CAMBRIAN SCHOOL DISTRICT

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

	Agency Fund
ASSETS	
Deposits and investments	<u>\$ 140,174</u>
LIABILITIES	
Due to student groups	<u>\$ 140,174</u>

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

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Cambrian School District was organized in 1865 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 kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates four elementary and one middle schools.

A reporting entity is comprised of the primary government only. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Cambrian School District, this includes general operations, food service, and student related activities of the District.

Charter School

The District has approved Charters for Farnham Charter School, Fammatre Charter, Sartorette Charter School, and Ida Price Charter School. All of these Charter Schools are operated by the District, and their financial activities are presented in the General Fund.

Basis of Presentation - Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major 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 special revenue fund in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, 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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

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).

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.

Cafeteria Fund

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

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Retiree Benefits Fund

The Retiree Benefits Fund is used for accumulating general fund moneys for retiree benefits purposes.

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).

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 the District (*Education Code Sections 15125-15262*).

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.

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 Associated Student Body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is similar to that used by most private sector companies, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. 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 function is self-financing or draws from the general revenues of the District.

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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major 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 a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the differences between the government-wide statements and the statements for the governmental fund financial statements.

Fiduciary Funds

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Deferred Revenue

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

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term obligations, which have 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.

Investments

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

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. 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, but are capitalized and amortized to operations in the government-wide statements. General capital assets are long-lived assets of the District as a whole. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The historical costs of land are not considered significant and have been omitted from the capital assets detail.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements 15 to 40 years. The District capitalizes assets with value exceeding \$50,000.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. 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. The non-current portion of the liability is not reported in the statements, but is shown as a component of general long-term debt.

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 financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Debt service on bonds, capital leases, and other long-term loans is recognized as an expenditure in the governmental fund financial statements when paid. Long-term obligations are not reflected as liabilities in governmental funds. They are disclosed in the footnotes as components of long-term debt.

Deferred Issuance Costs, Premiums and Discounts

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

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Fund Balances - Governmental Funds

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

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

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

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

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax

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

New Accounting Pronouncements

In November 2010, the GASB issued 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 Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of 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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

In June 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.

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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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*.

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.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

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

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

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

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

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

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	\$ 23,134,792
Fiduciary funds	140,174
Total Deposits and Investments	<u>\$ 23,274,966</u>

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

Cash on hand and in banks	\$ 1,986,883
Cash in revolving	1,658
Investments	21,286,425
Total Deposits and Investments	<u>\$ 23,274,966</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.

CAMBRIAN 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 amortized cost 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.

Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

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

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

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District monitors the interest rate risk inherent in its portfolio by measuring the modified duration of its portfolio. The District has no specific limitations with respect to this metric.

Investment Type	Carrying Amount	Fair Value	Weighted Average Maturity In Years
U.S. Agencies	\$ 2,067,741	\$ 2,067,741	4.45
Corporate Notes	1,617,333	1,617,332	1.53
County Treasury Pool	14,783,092	14,839,416	1.29
State Investment Pool	2,818,259	2,821,697	1.29
Total	<u>\$ 21,286,425</u>	<u>\$ 21,346,186</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	S & P Rating as of Year End					
		AA+	AA-	A+	A	A-	Unrated
U.S. Agencies	\$ 2,067,741	\$ 2,067,741	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Notes	1,617,332	196,909	64,681	439,257	293,958	622,527	-
County Treasury Pool	14,839,416	-	-	-	-	-	14,839,416
State Investment Pool	2,821,697	-	-	-	-	-	2,821,697
Total	<u>\$ 21,346,186</u>	<u>\$ 2,264,650</u>	<u>\$ 64,681</u>	<u>\$ 439,257</u>	<u>\$ 293,958</u>	<u>\$ 622,527</u>	<u>\$ 17,661,113</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, none of the District's bank balance of \$1,772,898 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investments that are not registered in the name of the District are the investments in the Santa Clara County Pool, the investment in the State investment pool (LAIF) and the District's investment in money market mutual funds.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The following issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) had investments that represent 5% or more of the District's total investments:

Issuer	Investment Type	Reported Amount	Percentage
Federal National Mortgage Association	US Agencies	\$ 1,622,641	7.60%

NOTE 3 – RECEIVABLES

	General	Building	Special Reserve Capital	Nonmajor Funds	Total
Federal Government					
Categorical aid	\$ 157,084	\$ -	\$ -	\$ 48,834	\$ 205,918
State Government					
Apportionment	2,682,761	-	-	-	2,682,761
Categorical aid	392,603	-	-	4,037	396,640
Lottery	217,656	-	-	-	217,656
Local Government					
Interest	13,507	41,507	10,504	771	66,289
Other Local Sources	699,820	-	-	15,058	714,878
Total	<u>\$ 4,163,431</u>	<u>\$ 41,507</u>	<u>\$ 10,504</u>	<u>\$ 68,700</u>	<u>\$ 4,284,142</u>

CAMBRIAN 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 being depreciated:				
Buildings and Improvements	\$ 44,482,972	\$ -	\$ -	\$ 44,482,972
Less Accumulated Depreciation:				
Buildings and Improvements	12,949,206	1,707,879	-	14,657,085
Governmental Activities Capital Assets, Net	<u>\$ 31,533,766</u>	<u>\$ (1,707,879)</u>	<u>\$ -</u>	<u>\$ 29,825,887</u>

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

Governmental Activities	
Instruction	\$ 1,277,059
Supervision of instruction	40,976
Instructional library, media, and technology	11,160
School site administration	98,240
Pupil transportation	15,670
Food services	57,036
All other pupil services	63,299
All other general administration	106,553
Data processing	37,886
Total Depreciation Expense All Activities	<u>\$ 1,707,879</u>

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 governmental funds are as follows:

	Due To General
Due From Special Reserve Capital	\$ 123,319

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 6 – ACCOUNTS PAYABLE

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

	General	Special Reserve Capital	Non-Major Governmental	Total
Vendor payables	\$ 478,307	\$ 88,506	\$ 15,359	\$ 582,172
State apportionment	142,945	-	-	142,945
Salaries and benefits	56,209	-	37,630	93,839
Total	<u>\$ 677,461</u>	<u>\$ 88,506</u>	<u>\$ 52,989</u>	<u>\$ 818,956</u>

NOTE 7 – DEFERRED REVENUE

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

	General
Federal financial assistance	\$ 12,823
Other local	49,635
Total	<u>\$ 62,458</u>

NOTE 8 – LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

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

	Balance July 1, 2011	Accretion	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$20,333,586	\$ 302,087	\$ 455,000	\$ 20,180,673	\$ 500,000
Accumulated vacation - net	84,644	32,202	-	116,846	116,846
Lease revenue bond	40,000	-	40,000	-	-
	<u>\$20,458,230</u>	<u>\$ 334,289</u>	<u>\$ 495,000</u>	<u>\$ 20,297,519</u>	<u>\$ 616,846</u>

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted	Redeemed	Bonds Outstanding June 30, 2012
7/1/2003	7/1/2028	2.0%-4.0%	\$ 15,524,912	\$ 13,784,869	\$ 34,697	\$ 390,000	\$ 13,429,566
4/1/2005	7/1/2035	2.7%-5.5%	5,450,033	6,548,717	267,390	65,000	6,751,107
				<u>\$ 20,333,586</u>	<u>\$ 302,087</u>	<u>\$ 455,000</u>	<u>\$ 20,180,673</u>

Debt Service Requirements to Maturity

The general obligation bonds mature through 2036 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 500,000	\$ 630,111	\$ 1,130,111
2014	550,000	614,411	1,164,411
2015	610,000	592,611	1,202,611
2016	670,000	568,212	1,238,212
2017	735,000	541,411	1,276,411
2018-2022	4,750,000	2,208,938	6,958,938
2023-2027	6,911,819	1,176,319	8,088,138
2028-2032	2,373,059	6,996,941	9,370,000
2033-2036	1,205,066	4,844,934	6,050,000
Total	<u>18,304,944</u>	<u>\$ 18,173,888</u>	<u>\$ 36,478,832</u>
Accretion to date:	<u>1,875,729</u>		
	<u>\$ 20,180,673</u>		

Lease Revenue Bonds

During 1997, the District entered into a long-term lease agreement with the City of San Jose (the "City") for the use of portable classroom facilities. The City issued lease revenue bonds in the total amount of \$9,805,000, the proceeds of which have been used to purchase portable school buildings and other items. The District's allocation of the bond proceeds at par is \$445,000. The District pays back the City in the form of annual payments equal to their proportional share of the annual debt service on the bonds. The payments are due annually in principal amounts ranging from \$20,000 to \$40,000 plus interest at approximately 4.6 percent per annum. The final payment was made June 30, 2012.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$116,846.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 1,400	\$ -	\$ -	\$ 258	\$ 1,658
Prepaid expenditures	9,218	-	-	-	9,218
Total Nonspendable	10,618	-	-	258	10,876
Restricted					
Legally restricted programs	219,076	-	-	44,744	263,820
Capital projects	-	-	-	128,791	128,791
Debt services	-	-	-	823,403	823,403
Total Restricted	219,076	-	-	996,938	1,216,014
Assigned					
Capital projects	-	8,820,202	6,871,920	-	15,692,122
OPEB	-	-	-	17,168	17,168
Maintenance	-	-	-	62,908	62,908
Total Assigned	-	8,820,202	6,871,920	80,076	15,772,198
Unassigned					
Reserve for economic uncertainties	1,249,730	-	-	-	1,249,730
Remaining unassigned	8,219,525	-	-	-	8,219,525
Total Unassigned	9,469,255	-	-	-	9,469,255
Total	\$9,698,949	\$8,820,202	\$6,871,920	\$1,077,272	\$26,468,343

NOTE 10 - RISK MANAGEMENT

Property and Liability

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

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Workers' Compensation

For fiscal year 2011-2012, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Santa Clara County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Groups' selection criteria.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 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 \$1,063,652, \$1,025,444 and \$1,148,087, respectively, and equal 100 percent of the required contributions for each year.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS 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, CA 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 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 \$251,479, \$247,134 and \$242,759, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan.

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 \$675,631 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

CAMBRIAN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 12 - 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 involved in various litigation arising from the normal course of business. In the opinion of managements and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool and the West Valley Transportation Joint Powers Authority. The District pays an annual premium to the entities for its health, workers' compensation, property liability coverage, and to purchase transportation services. The relationship between the District and the pool, is such that it is not a component unit of the District for financial reporting purposes.

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

The District has appointed one member to the governing board of Santa Clara County Schools Insurance Group and West Valley Transportation Joint Powers Authority.

During the year ended June 30, 2012, the District made payments of \$748,173 and \$142,021 to the Santa Clara County Schools Insurance Group and West Valley Transportation Joint Powers Authority, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CAMBRIAN SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	Non GAAP	Favorable
			Basis	(Unfavorable)
				Final
				to Actual
REVENUES				
Revenue limit sources	\$ 17,376,041	\$ 17,069,609	\$ 17,124,607	\$ 54,998
Federal sources	1,410,973	1,592,347	1,720,624	128,277
Other state sources	3,479,027	4,060,893	4,051,448	(9,445)
Other local sources	2,516,221	2,623,907	2,677,600	53,693
Total Revenues¹	24,782,262	25,346,756	25,574,279	227,523
EXPENDITURES				
Current				
Certificated salaries	13,129,357	13,274,864	13,150,258	124,606
Classified salaries	3,130,149	3,233,541	3,286,133	(52,592)
Employee benefits	4,367,564	4,543,777	4,425,726	118,051
Books and supplies	839,665	1,265,570	1,167,217	98,353
Services and operating expenditures	2,774,153	2,948,895	2,879,417	69,478
Other outgo	11,109	11,109	-	11,109
Capital outlay	41,950	43,900	43,900	-
Debt service - principal	-	-	40,000	(40,000)
Debt service - interest	-	-	1,950	(1,950)
Total Expenditures¹	24,293,947	25,321,656	24,994,601	327,055
NET CHANGE IN FUND BALANCES	488,315	25,100	579,678	554,578
Fund Balance - Beginning	8,480,217	8,480,217	8,480,217	-
Fund Balance - Ending	\$ 8,968,532	\$ 8,505,317	9,059,895	\$ 554,578
Special Reserve Fund for Other Than Capital Outlay			639,054	
Fund Balance - Ending, GAAP Basis			\$ 9,698,949	

¹ On behalf payments of \$675,631 has been excluded from this schedule.

SUPPLEMENTARY INFORMATION

CAMBRIAN SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through		Federal Expenditures
	Federal CFDA Number	Entity Identifying Number	
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education:			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	\$ 203,116
Title II, Part A, Teacher Quality	84.367	14341	72,763
Title II, Part D, Enhancing Education Through Technology	84.318	14334	1,826
Title II, ARRA, Part D, Enhancing Education Through Technology	84.386	15019	3,620
Title III, Limited English Proficiency Student Program	84.365	10084	62,458
Education Jobs and Medicaid Assistance Act:			
Education Jobs Program	84.410	25152	627,010
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B	84.027	13379	458,607
Basic Local Assistance Entitlement, Part B, Private School	84.027	10115	1,842
Preschool Grants, Part B	84.173	13430	36,702
Preschool Local Entitlement, Part B	84.027A	13682	79,516
Preschool Staff Development, Part B	84.173A	13431	533
Mental Health Allocation Plan, Part B	84.027	14468	32,075
Subtotal			<u>1,580,068</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education:			
Child Nutrition Act:			
Basic School Breakfast Program	10.553	13525	9,376
Especially Needy Breakfast	10.553	13526	62,349
National School Lunch Program	10.555	13391	251,109
Fair Market Value of Commodities ^[1]	10.558	13534	38,425
Subtotal			<u>361,259</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Medi-Cal Administrative Activites	93.778	10060	140,556
Total Expenditures of Federal Awards			<u>\$ 2,081,883</u>

^[1] Commodities are not recorded in the financial statements.

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2012

ORGANIZATION

The Cambrian School District was organized in 1865 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 kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates four elementary schools and one middle school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Randy Scofield	President	2014
Stacey Brown	Vice President	2014
Doron Aronson	Clerk	2012
Jarod Middleton	Member	2012
Alan Baker	Member	2014

ADMINISTRATION

Dr. Deborah Blow	Superintendent
Don Fox	Interim Chief Financial Officer

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

	Second Period Report	Annual Report
DISTRICT ELEMENTARY		
Kindergarten	111	111
First through third	336	336
Fourth through sixth	204	204
Special education	35	35
Total Elementary	686	686
ALL CHARTER SCHOOLS		
Kindergarten	247	248
First through third	787	789
Fourth through sixth	848	849
Seventh and eighth	668	668
Total Charter Schools	2,550	2,554
Grant Total	3,236	3,240
CHARTER SCHOOL		
Classroom-Based		
Kindergarten	245	247
First through third	784	786
Fourth through sixth	845	847
Seventh and eighth	667	667
Total Classroom-Based	2,541	2,547
Non Classroom-Based		
Kindergarten	2	1
First through third	3	3
Fourth through sixth	3	2
Seventh and eighth	1	1
Total Non Classroom-Based	9	7
Total Charter School	2,550	2,554

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,860	31,860	36,000	33,600	35,725	177	In compliance
Grades 1 - 3							
Grade 1	45,090	45,090	50,400	49,000	49,783	177	In compliance
Grade 2	45,090	45,090	50,400	49,000	49,783	177	In compliance
Grade 3	45,090	45,090	50,400	49,000	49,788	177	In compliance
Grades 4 - 6							
Grade 4	49,755	49,755	54,000	52,500	53,440	177	In compliance
Grade 5	49,755	49,755	54,000	52,500	53,440	177	In compliance
Grade 6	49,755	49,755	54,000	52,500	54,502	177	In compliance
Grades 7 - 8							
Grade 7	52,800	52,800	54,000	52,500	55,023	177	In compliance
Grade 8	52,800	52,800	54,000	52,500	55,023	177	In compliance

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

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

	General	Special Reserve Non-Capital
FUND BALANCE		
Balance, June 30, 2012, Unaudited Actuals	\$ 9,059,895	\$ 639,054
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	639,054	(639,054)
Balance, June 30, 2012, Audited Financial Statement	<u>\$ 9,698,949</u>	<u>\$ -</u>

See accompanying note to supplementary information.

CAMBRIAN 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	\$ 24,431,259	\$ 26,249,910	\$ 24,921,789	\$ 23,013,004
Transfers in	-	-	737,000	780,000
Total Revenues and Other Sources	24,431,259	26,249,910	25,658,789	23,793,004
Expenditures	25,067,613	25,670,232	23,093,381	25,425,000
Other uses and transfers out	-	-	-	10,449
Total Expenditures and Other Uses	25,067,613	25,670,232	23,093,381	25,435,449
INCREASE (DECREASE) IN FUND BALANCE	\$ (636,354)	\$ 579,678	\$ 2,565,408	\$ (1,642,445)
ENDING FUND BALANCE	\$ 8,423,541	\$ 9,059,895	\$ 8,480,217	\$ 5,914,809
AVAILABLE RESERVES ²	\$ 8,817,807	\$ 9,469,255	\$ 8,310,392	\$ 4,357,715
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	35.18%	37.89%	35.99%	17.54%
LONG-TERM OBLIGATIONS	\$ 20,162,066	\$ 20,297,519	\$ 20,458,230	\$ 20,636,363
AVERAGE DAILY ATTENDANCE AT P-2	3,260	3,236	3,248	3,104

The General Fund balance has increased by \$3,145,086 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$636,354. 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 two operating surpluses and one operating deficit in the previous three years. The District anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long-term obligations have decreased by \$338,844 over the past two years due to principal payments of general obligation bonds and lease revenue bonds.

Average daily attendance has increased by 132 over the past two years. An increase of 24 ADA is anticipated during fiscal year 2012-13.

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

² Available reserves consist of all unassigned fund balances contained within the General Fund and Special Reserve Fund for Other than Capital Outlay.

³ On-behalf payments of \$675,631, \$530,372 and \$593,804, have been excluded from revenues, expenditures and the calculation of the available reserves percentage 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.

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2012

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Farnham Charter School	Yes
Sartorette Charter School	Yes
Ida Price Charter School	Yes
Fammatre Charter School	Yes

See accompanying note to supplementary information.

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

	Cafeteria Fund	Deferred Maintenance Fund
ASSETS		
Deposits and investments	\$ 45,077	\$ 62,908
Receivables	52,914	-
Total Assets	\$ 97,991	\$ 62,908
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 52,989	\$ -
Fund Balances:		
Nonspendable	258	-
Restricted	44,744	-
Assigned	-	62,908
Total Fund Balances	45,002	62,908
Total Liabilities and Fund Balances	\$ 97,991	\$ 62,908

See accompanying note to supplementary information.

Retiree Benefits Special Reserve Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 17,141	\$ 113,598	\$ 822,837	\$ 1,061,561
27	15,193	566	68,700
<u>\$ 17,168</u>	<u>\$ 128,791</u>	<u>\$ 823,403</u>	<u>\$ 1,130,261</u>
\$ -	\$ -	\$ -	\$ 52,989
-	-	-	258
-	128,791	823,403	996,938
17,168	-	-	80,076
<u>17,168</u>	<u>128,791</u>	<u>823,403</u>	<u>1,077,272</u>
<u>\$ 17,168</u>	<u>\$ 128,791</u>	<u>\$ 823,403</u>	<u>\$ 1,130,261</u>

CAMBRIAN SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund
REVENUES		
Federal sources	\$ 322,834	\$ -
Other State sources	39,084	-
Other local sources	420,872	-
Total Revenues	<u>782,790</u>	<u>-</u>
EXPENDITURES		
Current		
Pupil Services:		
Food services	780,826	-
Facility acquisition and construction	-	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	<u>780,826</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>1,964</u>	<u>-</u>
Fund Balance - Beginning	43,038	62,908
Fund Balance - Ending	<u><u>\$ 45,002</u></u>	<u><u>\$ 62,908</u></u>

See accompanying note to supplementary information.

Retiree Benefit Special Reserve Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 322,834
-	-	9,837	48,921
120	27,551	1,099,619	1,548,162
120	27,551	1,109,456	1,919,917
-	-	-	780,826
-	11,504	-	11,504
-	-	455,000	455,000
-	-	637,848	637,848
-	11,504	1,092,848	1,885,178
120	16,047	16,608	34,739
17,048	112,744	806,795	1,042,533
\$ 17,168	\$ 128,791	\$ 823,403	\$ 1,077,272

CAMBRIAN 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 Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA	
	Number	Amount
Total Federal Revenues in Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 2,043,458
Fair Market Value of Commodities	10.558	38,425
Total Expenditures of Federal Awards		<u>\$ 2,081,883</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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.

CAMBRIAN SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School and whether or not the Charter School is included in the School District audit.

Combining Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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

INDEPENDENT AUDITOR'S REPORTS



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

Board of Trustees
Cambrian School District
San Jose, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cambrian School District as of and for the year ended June 30, 2012, which collectively comprise Cambrian School District's basic financial statements and have issued our report thereon dated December 3, 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.

Internal Control Over Financial Reporting

Management of Cambrian School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cambrian 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 Cambrian School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cambrian 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cambrian 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*.

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.

A handwritten signature in black ink that reads "Varsinek, Trine, Day & Co, LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
December 3, 2012



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

Board of Trustees
Cambrian School District
San Jose, California

Compliance

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

In our opinion, Cambrian 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 Cambrian 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 Cambrian 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 Cambrian School District's internal control over compliance.

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

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

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



Palo Alto, California
December 3, 2012



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Cambrian School District
San Jose, California

We have audited Cambrian 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 Cambrian 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 Cambrian School District's management. Our responsibility is to express an opinion on Cambrian 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 Cambrian 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 Cambrian School District's compliance with those requirements.

In our opinion, Cambrian 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 Cambrian 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	Yes
Continuation education	10	Not applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable

	Procedures in Audit Guide	Procedures Performed
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	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	No
Determination of funding for non classroom-based instruction	3	No
Annual instruction minutes classroom based	4	Yes

We did not perform testing for non classroom-based instruction/independent study and determination of funding for non classroom-based instruction because the ADA generated by the programs was below the minimum threshold for 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.

Davrinek, Thine Day & Co, LLP

Palo Alto, California
December 3, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CAMBRIAN SCHOOL DISTRICT

SUMMARY SCHEDULE OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditor's 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 auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133? Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster Programs</u>
<u>84.410</u>	<u>Education Jobs Program Fund</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 auditor's report issued on compliance for programs:	<u>Unqualified</u>
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CAMBRIAN SCHOOL DISTRICT

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

None reported.

CAMBRIAN SCHOOL DISTRICT

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

None reported.

CAMBRIAN SCHOOL DISTRICT

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

None reported.

CAMBRIAN SCHOOL DISTRICT

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

Financial Statement Findings

None reported.

Federal Award Findings

None reported.

State Award Findings

None reported.