

SOUTHERN KERN UNIFIED SCHOOL DISTRICT

KERN COUNTY
ROSAMOND, CALIFORNIA

ANNUAL FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

JUNE 30, 2012

JLG
Jeanette L. Garcia & Associates
CERTIFIED PUBLIC ACCOUNTANT

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Financial Section



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Jeanette L. Garcia,
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southern Kern Unified School District
Rosamond, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Kern Unified School 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 Southern Kern Unified School 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the 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 Southern Kern Unified School District as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2012 on our consideration of Southern Kern Unified School 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.

Member:

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California
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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 General Fund Budgetary Comparison Schedule on page 41 and Other Postemployment Benefits Schedule of Funding Progress on page 42 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 an opinion on the financial statements that collectively comprise Southern Kern Unified School District's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the remaining schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the remaining schedules as listed in the Table of Contents are fairly stated in all material respects in relation to the financial statements as a whole.

Jeanette L Garcia + Associates

December 14, 2012

**SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the Fiscal Year Ended
June 30, 2012

INTRODUCTION

The Management's Discussion and Analysis of Southern Kern Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the auditor's letter, notes to the basic financial statements and the basic government-wide financial statements to enhance their understanding of the District's financial performance.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Southern Kern Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The "Statement of Net Assets" and "Statement of Activities" provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. "Fund Financial Statements" provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all special revenue funds and other non-major funds presented in total in two columns.
- The major funds for Southern Kern Unified School District are the General Fund and the County School Facilities Fund.
- The Management's Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances.

FINANCIAL HIGHLIGHTS

- The Southern Kern Unified School District's Government-wide Statement of Net Assets shows Total Net Assets of \$16,941,164, the result of assets of \$50,184,184 less liabilities of \$33,243,020.
- General Revenues accounted for \$18,435,188 in revenue or 56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,232,946 or 44% of total revenues of \$32,668,134.
- The District had \$25,735,289 in expenses related to governmental activities; only \$14,232,946 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily state revenue limit sources and property taxes) of \$18,435,188 provided the remaining \$11,502,343 required for these programs. This resulted in a change in Total Net Assets of \$6,932,845.
- The General Fund reported a positive fund balance of \$4,768,311.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

REPORTING THE DISTRICT AS A WHOLE

▪ THE STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. However, the Southern Kern Unified School District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other non-financial factors as well as factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the "Statement of Net Assets" and the "Statement of Activities," the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here, including instruction, pupil services including transportation and food services, administration, plant services, facilities acquisition and construction, interest on the long-term debt and other services.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. Southern Kern Unified School District does not have any of these types of activities at this time.

▪ 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 statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

▪ GOVERNMENTAL FUNDS

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

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

▪ FIDUCIARY FUNDS

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

The Southern Kern Unified School District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The Southern Kern Unified School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

▪ NOTES TO THE FINANCIAL STATEMENTS

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

▪ THE DISTRICT AS A WHOLE

The "Statement of Net Assets" provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for fiscal years 2012 and 2011.

Table 1 - Net Assets

	Governmental Activities		% Change
	2012	2011*	
Current and other assets	\$ 19,489,749	\$ 11,565,109	68.5
Capital assets	30,694,435	31,059,867	(1.2)
Total assets	<u>\$ 50,184,184</u>	<u>\$ 42,624,976</u>	17.7
Current liabilities	\$ 4,664,175	\$ 6,157,237	(24.3)
Long-term debt	28,578,845	26,459,420	8.0
Total liabilities	<u>\$ 33,243,020</u>	<u>\$ 32,616,657</u>	1.9
Net Assets			
Invested in capital assets, net of related debt	\$ 5,258,508	\$ 7,025,477	(25.2)
Restricted	10,631,891	974,158	991.4
Unrestricted	1,050,765	2,008,684	(47.7)
Total Net Assets	<u>\$ 16,941,164</u>	<u>\$ 10,008,319</u>	69.3

* Restated

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

Table 2 shows the changes in net assets for fiscal years 2012 and 2011.

Table 2 - Changes in Net Assets

	Governmental Activities		% Change
	2012	2011	
Revenues			
<i>Program Revenues:</i>			
Charges for Services	\$ 189,457	\$ 228,707	(17.2)
Operating Grants and Contributions	5,376,405	7,697,789	(30.2)
Capital Grants	8,667,084	164,958	5154.1
<i>General Revenues:</i>			
State and Federal Sources	14,580,058	12,644,796	15.3
Property Taxes	4,896,990	5,255,483	(6.8)
Other General Revenue	(1,041,860)	1,557,892	(166.9)
Total Revenues	<u>32,668,134</u>	<u>27,549,625</u>	18.6
Expenses			
Instruction	16,623,104	18,705,161	(11.1)
Pupil Services	2,797,605	3,111,333	(10.1)
Administration	1,224,601	993,336	23.3
Maintenance and Operations	2,867,707	3,286,934	(12.8)
Other	2,222,272	1,731,282	28.4
Total Expenses	<u>25,735,289</u>	<u>27,828,046</u>	(7.5)
Change in Net Assets	<u>\$ 6,932,845</u>	<u>\$ (278,421)</u>	2590.1

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

▪ **GOVERNMENTAL ACTIVITIES**

Charges for services, operating grants and contributions made up 44% of revenues for governmental activities. General Revenues not restricted to specific programs made up 56% of the total revenues available. Instruction related activities made up 64% of expenses. Pupil services including home-to-school transportation and food services made up 11%. Administration including data processing made up 5%. Maintenance and operations including facility acquisition and construction made up 11%. "Statement of Activities" (Exhibit B) shows the cost of program services and the charges for services and grants offsetting those services.

Table 3 compares the total cost of services and the net cost of services between 2011-12 and 2010-11. The net cost of these services is the cost supported by tax revenue and unrestricted state entitlements.

Table 3 - Net Cost of Governmental Activity

	Total Cost			
	2012	%	2011	%
Instruction	\$ 16,623,104	64	\$ 18,705,161	67
Pupil Services	2,797,605	11	3,111,333	11
Administration	1,224,601	5	993,336	4
Maintenance and Operations	2,867,707	11	3,286,934	12
Other	2,222,272	9	1,731,282	6
Total	<u>\$ 25,735,289</u>	<u>100</u>	<u>\$ 27,828,046</u>	<u>100</u>

	Net Cost			
	2012	%	2011	%
Instruction	\$ 5,030,068	44	\$ 13,915,631	70
Pupil Services	657,450	6	1,285,290	6
Administration	1,161,859	10	714,800	4
Maintenance and Operations	2,858,595	25	2,319,732	12
Other	1,794,371	15	1,501,140	8
Total	<u>\$ 11,502,343</u>	<u>100</u>	<u>\$ 19,736,593</u>	<u>100</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

GENERAL FUND BUDGET INFORMATION
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The District's budget is prepared in accordance with California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

In April of each year, a Preliminary Budget is presented to the Board. Time is allocated during the Board meeting for public input and Board direction. A Tentative Budget is presented in late May, which reflects the latest known financial information, including the Governor's May Revise of the state budget. The Final Budget is presented for adoption in late June. During the course of the fiscal year, the District revises its budget as it deals with changes in revenues and expenditures. These reports include revisions based on state budget adoption that are normally presented in August if the state has an on-time budget. Adjustments to Actuals are presented in September, First Interim is normally presented in December, and Second Interim is normally presented in March.

▪ GENERAL FUND BUDGET VARIATIONS

For the General Fund, actual revenues were \$23,474,589 with original budget estimated at \$22,812,063. The difference of \$662,526 was due to additional Categorical, State and Federal Funds received by the District.

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

The implementation of new instructional programs can also affect budget projections. New academically focused programs will impact expenditures in personnel, instructional materials, outside services and supplies.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

▪ CAPITAL ASSETS AND DEBT ADMINISTRATION

• CAPITAL ASSETS

At the end of the fiscal year 2011-2012, the District had \$30,694,435 invested in land, buildings, equipment, and work in progress. Table 4 shows fiscal years 2012 and 2011.

Table 4 - Capital Assets at Year-End
(net of depreciation)

	Governmental Activities	
	2012	2011*
Land	\$ 890,449	\$ 890,449
Buildings and Improvements	21,752,747	16,574,256
Equipment	891,330	1,030,296
Work in Progress	7,159,909	12,564,866
Total	<u>\$ 30,694,435</u>	<u>\$ 31,059,867</u>

* Restated

• DEBT

At June 30, 2012, the Southern Kern Unified School District had \$28,578,845 in debt outstanding. Table 5 summarizes these debts.

Table 5 - Outstanding Debt at Year-End

	Governmental Activities	
	2012	2011*
General Obligation Bonds	\$ 25,435,928	\$ 21,771,089
Compensated Absences	139,365	347,850
Other Postemployment Benefits	2,838,552	1,857,180
Other General Long-Term Debt	165,000	220,000
Certificates of Participation	-	2,263,301
Total	<u>\$ 28,578,845</u>	<u>\$ 26,459,420</u>

* Restated

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended
June 30, 2012

FOR THE FUTURE

SKUSD faced an unusual amount of challenges in 2011/2012 fiscal year. As we head into 2012/2013, many of those challenges remain; however, through exceptional fiscal management, we have placed ourselves in a very favorable position to have a very successful future. In 2011/2012, we added over \$1 million to our reserves, raising our current reserves to approximately 20%. Our student attendance at the District continues to decline, but the decline has slowed in the past two years and it is expected to level off or increase in 2012/2013. This will allow for better budget management as our revenue stabilizes from year to year. District Management has extended our MOU with its unions until June of 2015, adding additional stability to our expenses. In addition, with the passage of Proposition 30, more cuts will not be needed to ensure the fiscal soundness of the District.

Looking to the future, the District hopes to renovate three of its school sites without increasing the current burden of the taxpayer through the use of State "hardship" funds. Also, through our aggressive pursuit of grants we hope to increase our ability to improve the technology of the District and continue to provide our students with the latest learning support and new curriculum standards.

The management of SKUSD continues to remain committed to providing the highest quality education while ensuring the financial stability of the District.

▪ CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeffrey Weinstein, Chief Administrative Officer, Southern Kern Unified School District, (661) 256-5000 Ext. 1125.

EXHIBIT A

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
 JUNE 30, 2012

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash (Note 2)	\$ 14,229,756
Accounts Receivable (Note 3)	5,167,692
Inventory (Note 1)	92,301
Total Current Assets	<u>19,489,749</u>
Capital Assets: (Note 6)	
Land	890,449
Site Improvements	1,903,945
Buildings	28,757,988
Furniture and Equipment	5,580,966
Work in Progress	7,159,909
Less Accumulated Depreciation	<u>(13,598,822)</u>
Total Capital Assets	<u>30,694,435</u>
TOTAL ASSETS	<u>50,184,184</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	1,833,199
Current Loans (Note 12)	2,797,268
Deferred Revenue	33,708
Total Current Liabilities	<u>4,664,175</u>
Long-Term Liabilities: (Note 7)	
Portion Due or Payable Within One Year	1,850,472
Portion Due or Payable After One Year	<u>26,728,373</u>
Total Long-Term Liabilities	<u>28,578,845</u>
TOTAL LIABILITIES	<u>33,243,020</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,258,508
Restricted for:	
Capital Projects	8,970,491
Debt Services	721,404
Educational Programs	460,741
Other Purposes (Expendable)	366,301
Other Purposes (Nonexpendable)	112,954
Unrestricted	<u>1,050,765</u>
TOTAL NET ASSETS	<u>\$ 16,941,164</u>

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT B

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental:					
Instruction	\$ 13,886,542	\$ -	\$ 2,772,479	\$ 8,667,084	\$ (2,446,979)
Instruction-Related Services:					
Supervision of Instruction	12,711	-	3,885	-	(8,826)
Instructional Library, Media, and Technology	326,954	-	58,375	-	(268,579)
School Site Administration	2,396,897	-	91,213	-	(2,305,684)
Pupil Services:					
Home-to-School Transportation	956,494	-	427,197	-	(529,297)
Food Services	1,088,080	188,963	1,112,348	-	213,231
All Other Pupil Services	753,031	-	411,647	-	(341,384)
General Administration:					
Data Processing	322	-	-	-	(322)
All Other General Administration	1,224,279	-	62,742	-	(1,161,537)
Plant Services	2,867,707	494	8,618	-	(2,858,595)
Ancillary Services	363,822	-	316,950	-	(46,872)
Community Services	5,000	-	5,000	-	-
Interest on Long-Term Debt	929,610	-	-	-	(929,610)
Other Outgo	171,791	-	105,951	-	(65,840)
Depreciation (Unallocated)	752,049	-	-	-	(752,049)
Total Primary Government	\$ 25,735,289	\$ 189,457	\$ 5,376,405	\$ 8,667,084	(11,502,343)
General Revenues:					
Taxes:					
Property Taxes, levied for general purposes					3,936,841
Property Taxes, levied for debt service					958,238
Property Taxes, levied for other specific purposes					1,911
Federal and State Aid not restricted to specific purposes					14,580,058
Interest and Investment Earnings					73,563
Miscellaneous					737,705
Special and Extraordinary Items					(1,853,128)
Total General Revenues					18,435,188
Change in Net Assets					6,932,845
Net Assets - July 1, 2011, as Previously Reported					10,662,857
Adjustment for Restatement (Note 17)					(654,538)
Net Assets - July 1, 2011, as Restated					10,008,319
Net Assets - June 30, 2012					\$ 16,941,164

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2012

	GENERAL FUND	COUNTY SCHOOL FACILITIES FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash (Note 2)				
Cash in County Treasury	\$ 4,242,506	\$ 8,430,583	\$ 1,536,374	\$ 14,209,463
Cash in Revolving Fund	5,000	-	15,293	20,293
Accounts Receivable (Note 3)	326,205	14,380	233,169	573,754
Due from Grantor Governments	4,593,938	-	-	4,593,938
Due from Other Funds	102,000	-	97,172	199,172
Inventory (Note 1)	9,279	-	83,022	92,301
TOTAL ASSETS	<u>\$ 9,278,928</u>	<u>\$ 8,444,963</u>	<u>\$ 1,965,030</u>	<u>\$ 19,688,921</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts Payable	\$ 1,641,891	\$ 10,724	\$ 45,663	\$ 1,698,278
Due to Grantor Governments	37,750	-	-	37,750
Due to Other Funds	-	-	199,172	199,172
Current Loans (Note 12)	2,797,268	-	-	2,797,268
Deferred Revenue	33,708	-	-	33,708
Total Liabilities	<u>4,510,617</u>	<u>10,724</u>	<u>244,835</u>	<u>4,766,176</u>
Fund Balances (Note 5)				
Nonspendable	14,279	-	98,315	112,594
Restricted	460,741	8,408,530	364,224	9,233,495
Assigned	2,077	25,709	1,257,656	1,285,442
Unassigned	4,291,214	-	-	4,291,214
Total Fund Balances	<u>4,768,311</u>	<u>8,434,239</u>	<u>1,720,195</u>	<u>14,922,745</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,278,928</u>	<u>\$ 8,444,963</u>	<u>\$ 1,965,030</u>	<u>\$ 19,688,921</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total Fund Balances - Governmental Funds \$ 14,922,745

Amounts reported for governmental activities in the statement of net assets are different because:

Amounts reported for capital assets for governmental activities are not financial resources and therefore are not reported as assets in the governmental fund. The cost of the assets is \$44,293,257 and the accumulated depreciation is \$13,598,822. 30,694,435

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

General Obligation Bonds	\$ 25,435,928	
Compensated Absences	139,365	
Other Postemployment Benefits	2,838,552	
Other General Long-Term Debt	165,000	(28,578,845)

In the governmental funds, interest expense is recorded when paid. In the government-wide statements, interest is recorded when it is incurred. (97,171)

Total Net Assets - Governmental Activities \$ 16,941,164

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND	COUNTY SCHOOL FACILITIES FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Revenue Limit Sources:				
State Apportionments	\$ 12,149,843	\$ -	\$ -	\$ 12,149,843
Local Sources	3,936,841	-	-	3,936,841
Revenue Limit Transfers	45,297	-	-	45,297
Total Revenue Limit Sources	16,131,981	-	-	16,131,981
Federal Revenues	1,589,185	-	1,024,029	2,613,214
Other State Revenues	4,962,686	8,667,084	109,960	13,739,730
Other Local Revenues	790,737	25,642	1,219,957	2,036,336
Total Revenues	23,474,589	8,692,726	2,353,946	34,521,261
EXPENDITURES				
Instruction	13,245,321	-	-	13,245,321
Instruction-Related Services:				
Supervision of Instruction	12,192	-	-	12,192
Instructional Library, Media and Technology	312,630	-	-	312,630
School Site Administration	2,339,272	-	-	2,339,272
Pupil Services:				
Home-to-School Transportation	979,325	-	-	979,325
Food Services	-	-	1,066,511	1,066,511
All Other Pupil Services	719,243	-	-	719,243
General Administration:				
Data Processing	322	-	-	322
All Other General Administration	1,207,198	-	12,174	1,219,372
Plant Services	2,811,188	-	4,905	2,816,093
Facilities Acquisition and Construction	119,334	258,554	116,514	494,402
Ancillary Services	347,636	-	-	347,636
Community Services	5,000	-	-	5,000
Other Outgo	171,791	-	-	171,791
Debt Service:				
Principal	-	-	315,000	315,000
Interest	-	-	832,439	832,439
Total Expenditures	22,270,452	258,554	2,347,543	24,876,549
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,204,137	8,434,172	6,403	9,644,712
OTHER FINANCING SOURCES (USES)				
Operating Transfers In (Note 4B)	98,600	-	291,516	390,116
Operating Transfers Out (Note 4B)	(194,344)	-	(195,772)	(390,116)
Proceeds from Sale of Bonds	-	-	117,301	117,301
Other Uses	-	-	(247,140)	(247,140)
Total Other Financing Sources (Uses)	(95,744)	-	(34,095)	(129,839)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,108,393	8,434,172	(27,692)	9,514,873
FUND BALANCES - JULY 1, 2011, as Previously Reported	3,655,830	67	1,751,975	5,407,872
Adjustment for Restatement (Note 17)	4,088	-	(4,088)	-
FUND BALANCES - JULY 1, 2011, as Restated	3,659,918	67	1,747,887	5,407,872
FUND BALANCES - JUNE 30, 2012	\$ 4,768,311	\$ 8,434,239	\$ 1,720,195	\$ 14,922,745

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$	9,514,873
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$752,049 exceeds capital outlays of \$386,617 in the period.		(365,432)
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Repayment of certificates of participation is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,263,301
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,340,000
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In the governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities.		(6,004,839)
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In governmental funds, compensated absences and postemployment benefits are measured by the amounts paid during the period. In the government-wide statements, they are measured by the amounts earned.		(717,887)
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In the governmental funds, interest is recorded when it is paid. In the government-wide statements, interest is recorded when it is incurred.		(97,171)
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Change in Net Assets of Governmental Activities	\$	<u>6,932,845</u>
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The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2012

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash (Note 2)	\$ 142,890
 TOTAL ASSETS	 \$ 142,890
<u>LIABILITIES</u>	
Accounts Payable	\$ 16,000
Due to Student Groups	126,890
 TOTAL LIABILITIES	 \$ 142,890

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Southern Kern Unified School District conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and by the American Institute of Certified Public Accountants. The following is a summary of the significant accounting policies:

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or retained earnings, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District accounts are organized into major, nonmajor, and fiduciary funds.

Major Governmental Funds:

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

County School Facilities Fund was established for the purpose of construction and/or modernization of school facilities as authorized by SB50 and Proposition 1A.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay and that compose a substantial portion of the fund's resources. The District maintains four nonmajor special revenue funds.

- Adult Education Fund is used to account for resources dedicated to adult education programs maintained by the District. Due to the implementation of GASB 54, the Adult Education Fund has been consolidated with the General Fund for reporting purposes.
- Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
- Deferred Maintenance Fund is used for the purpose of major repair of District property. Due to the implementation of GASB 54, the Deferred Maintenance Fund has been consolidated with the General Fund for reporting purposes.
- Special Reserve Fund - Other than Capital Outlay is used to set aside funds to protect the District from unforeseen economic events. Due to the implementation of GASB 54, the Special Reserve Fund has been consolidated with the General Fund for reporting purposes.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The District maintains one nonmajor debt service fund.

- The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of District bonds, interest and related costs.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains three nonmajor capital projects funds.

- Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.
- Special Reserve Fund is used to account for revenues received and expenditures made in connection with the maintenance of District property.
- Capital Facilities Fund is used to account for resources received from developer fees.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for each school that operates an associated student body.

Reporting Entity

The Southern Kern Unified School District (the District) and the Southern Kern School District Public Facilities Corporation (the Corporation) and California Public School Financing Authority have a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, The Financial Reporting Entity, for inclusion of the Corporation as a component unit of the District. The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California for the specific and primary purpose of providing financing assistance to the District for construction and acquisition of major capital facilities.

The following are those aspects of the relationship between the District, the Corporation and the Authority which satisfy GASB Statement No. 14 criteria:

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Oversight Responsibility:

- The District's Superintendent and Assistant Superintendent – Business Services, function as agents of the Corporation. Neither individual receives additional compensation for work performed in this capacity.

The District exercises significant influence over operation of the Corporation as it is anticipated that the District will be the major lessee of all facilities owned by the Corporation and hold title to all assets required by the corporation.

- Accountability for Fiscal Matters

Any deficits incurred by the Corporation for the subject transactions will be reflected in the lease payments of the District. Any surpluses of the Authority and the Corporation for the transaction revert to the District at the end of the lease period.

It is anticipated that the District's lease payments will be the sole revenue source of the Authority and the Corporation for this transaction.

The District has assumed a "moral obligation" and potentially a legal obligation, for any debt incurred by the Authority and the Corporation.

- Scope of Public Service

The Authority and the Corporation are acting in this transaction for the sole purpose of financially assisting the District.

The Authority is a nonprofit public benefit corporation formed to provide financing assistance to the District for advance refunding and legal defeasance of prior outstanding Certificates of Participation and construction and acquisition of major capital facilities and equipment (the "transaction"). Upon completion, the District intends to occupy or use all Authority facilities and equipment under a lease/purchase agreement effective through the year 2026. At the end of the lease term, title of all the Authority property and equipment will pass to the District for no additional consideration.

The Corporation is a nonprofit public benefit corporation formed to provide financing assistance to the District for the issuance of Certificates of Participation used to defease \$1,920,000 of prior outstanding Certificates of Participation debt and provide funding for construction of additional District facilities. Upon completion, the District intends to occupy all facilities under a lease/purchase agreement effective through the year 2026. At the end of the lease term, title of all corporate property will pass to the District for no additional consideration.

Financial Presentation

The Authority and the Corporation financial activity are presented in the financial statements as the Special Revenue Fund (Capital Projects). COPs issued by the Authority and the Corporation are included in Long Term Debt. Fixed assets acquired or constructed by the Authority and the Corporation are included in the Fixed Assets.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the district and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities.

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 goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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 governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Basis of Accounting

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use 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 under 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 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 collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By State law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements.

These budgets are revised by the District's Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The final revised budget that is presented in the financial statements consists of the original Board approved documents plus all revisions through June 30, 2012.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Accounting Estimates

The presentation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures (expenses) during the reporting period. Actual results could differ from those estimates.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All outstanding encumbrances were liquidated at June 30.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Inventory

Inventory in the General Fund and Cafeteria Fund consists mainly of expendable supplies held for consumption. Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and the cost is recorded as an expenditure at the time individual inventory items are requisitioned. Inventories are valued on the weighted average method. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Site Improvements	20-30
Building and Improvements	25-30
Furniture and Equipment	5-10
Vehicles	10

Interfund Balances

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

Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Net Assets in the Government-Wide Financial Statements

In the government-wide Statement of Net Assets, the net asset amount can be classified and displayed in three components:

- Invested in Capital Assets – This consists of capital assets net of accumulated depreciation and reduced by any long term borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted Net Assets – This consists of net assets with constraints placed upon the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This consists of all other net assets that do not meet the definition of “invested in capital assets” or “restricted.”

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distributions prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Fund Balance Reserves and Designations

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within the fund balance categories below:

- Nonspendable – This is fund balance associated with revolving cash funds, inventories and prepaids.
- Restricted – This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Committed – This includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Trustees (the District's highest level of decision-making authority).
- Assigned – These funds are intended to be used by the government (District) for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned – This is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

When fund balance resources are available for a specific purpose in multiple classifications, the District would use the most restrictive funds first.

2. CASH AND INVESTMENTS

Cash at June 30, 2012, consisted of the following:

	Governmental Funds	Agency Funds	Total
Pooled Funds:			
Cash in County Treasury	\$ 14,209,463	\$ -	\$ 14,209,463
Deposits:			
Cash on Hand and in Banks	-	142,890	142,890
Cash in Revolving Fund	20,293	-	20,293
Total	<u>\$ 14,229,756</u>	<u>\$ 142,890</u>	<u>\$ 14,372,646</u>

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Kern County Treasury as part of the investment pool which has a balance on June 30, 2012 of \$1,970,215,000. The County pools these funds with those of other Districts in the County and invests the cash. These pooled funds are carried at cost which approximates market value. The District is considered to be an involuntary participant in the external investment pool. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The fair market value of this pool as of June 30, 2012, as provided by the pool sponsor, was \$1,958,764,000. The County is required by Government Code Section 53635 pursuant to section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

SOUTHERN KERN UNIFIED 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 investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Kern County Investment Pool with a fair value of approximately \$14,126,877 and an amortized book value of \$14,209,463. The average weighted maturity for this pool is 512 days.

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2012, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had no concentration of credit risk.

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. 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

Cash balances held in banks and in revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by the financial institutions is fully insured or collateralized.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consist of the following:

	GENERAL FUND	COUNTY SCHOOL FACILITIES FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL
Accounts Receivable				
Federal Sources				
Child Nutrition	\$ -	\$ -	\$ 103,540	\$ 103,540
State Sources				
Categorical Aid Programs	293,879	-	-	293,879
Revenue Limit	20,280	-	-	20,280
Child Nutrition	-	-	9,093	9,093
Local Sources				
Interest	10,846	14,380	1,305	26,531
Other	1,200	-	119,231	120,431
Total Accounts Receivable	326,205	14,380	233,169	573,754
Due from Grantor Government				
Federal Sources				
Categorical Aid Programs	251,331	-	-	251,331
State Sources				
Categorical Aid Programs	567,789	-	-	567,789
Revenue Limit	3,615,378	-	-	3,615,378
Lottery	159,440	-	-	159,440
Total Due from Grantor Government	4,593,938	-	-	4,593,938
Total Receivables	\$ 4,920,143	\$ 14,380	\$ 233,169	\$ 5,167,692

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

A. Interfund Receivables/Payables (Due To/Due From)

Individual fund interfund receivable and payable balances at June 30, 2012, are as follows:

<u>DUE FROM</u>	<u>DUE TO</u>		
	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
All Other Governmental Funds	<u>\$ 102,000</u>	<u>\$ 97,172</u>	<u>\$ 199,172</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2011-12 fiscal year were as follows:

<u>TRANSFERS FROM</u>	<u>TRANSFERS TO</u>		
	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 194,344	\$ 194,344
All Other Governmental Funds	<u>98,600</u>	<u>97,172</u>	<u>195,772</u>
Total	<u>\$ 98,600</u>	<u>\$ 291,516</u>	<u>\$ 390,116</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5. FUND BALANCE

Ending fund balance in the individual fund types is composed of the following elements:

	GENERAL FUND	COUNTY SCHOOL FACILITIES FUND	ALL OTHER GOVERNMENTAL FUNDS	TOTAL
Nonspendable:				
Revolving Cash	\$ 5,000	\$ -	\$ 15,293	\$ 20,293
Stores	9,279	-	83,022	92,301
Total Nonspendable	14,279	-	98,315	112,594
Restricted	460,741	8,408,530	364,224	9,233,495
Assigned to:				
Other Assigned	2,077	25,709	1,257,656	1,285,442
Unassigned	4,291,214	-	-	4,291,214
Total Fund Balances	\$ 4,768,311	\$ 8,434,239	\$ 1,720,195	\$ 14,922,745

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012, are shown below:

PRIMARY GOVERNMENT				
	Balance July 1, 2011*	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2012
Land	\$ 890,449	\$ -	\$ -	\$ 890,449
Site Improvements	1,903,945	-	-	1,903,945
Buildings	22,993,103	5,764,885	-	28,757,988
Furniture and Equipment	5,554,277	26,689	-	5,580,966
Work in Progress	12,564,866	258,554	5,663,511	7,159,909
Total at Historical Cost	43,906,640	6,050,128	5,663,511	44,293,257
Less Accumulated Depreciation for:				
Site Improvements	668,539	70,637	-	739,176
Buildings	7,654,253	515,757	-	8,170,010
Furniture and Equipment	4,523,981	165,655	-	4,689,636
Total Accumulated Depreciation	12,846,773	752,049	-	13,598,822
Governmental Activities Capital Assets, Net	<u>\$ 31,059,867</u>	<u>\$ 5,298,079</u>	<u>\$ 5,663,511</u>	<u>\$ 30,694,435</u>

* Restated

7. LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2012, is shown below:

	Balance July 1, 2011*	Additions	Deductions	Balance June 30, 2012	Amounts Due Within One Year
General Obligation Bonds	\$ 21,771,089	\$ 6,004,839	\$ 2,340,000	\$ 25,435,928	\$ 385,000
Other Postemployment Benefits	1,857,180	981,372	-	2,838,552	1,410,472
Certificates of Participation	2,263,301	-	2,263,301	-	-
Compensated Absences	347,850	-	208,485	139,365	-
Early Retirement Incentives	220,000	-	55,000	165,000	55,000
Total	<u>\$ 26,459,420</u>	<u>\$ 6,986,211</u>	<u>\$ 4,866,786</u>	<u>\$ 28,578,845</u>	<u>\$ 1,850,472</u>

*Restated, see Note 8.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. BONDED DEBT

The outstanding general obligation bonded debt of the District at June 30, 2012 is the following:

Bond	Date of Bond	Year of Maturity	Rate of Interest	Amount of Original Issue	Bonds Outstanding July 1, 2011*	Issued During Year	Matured During Year	Bonds Outstanding June 30, 2012
2002 Series A	12/20/2002	2027	2.25-5.53%	\$ 5,498,334	\$ 4,608,334	\$ -	\$ 2,215,000	\$ 2,393,334
Series 2004	11/4/2004	2030	2.50-4.50%	2,647,114	2,502,115	-	35,000	2,467,115
Series 2006 C	11/9/2006	2032	3.45-4.68%	3,853,288	3,643,288	-	75,000	3,568,288
Series 2008 A	12/18/2008	2034	3.00-6.80%	4,056,633	4,056,633	-	-	4,056,633
Series 2010 B	5/27/2010	2050	2.00-6.95%	6,960,719	6,960,719	-	15,000	6,945,719
2012 Series A	6/28/2012	2024	2.00-3.00%	2,185,000	-	2,185,000	-	2,185,000
2012 Series B	6/28/2012	2032	1.52-4.50%	3,819,839	-	3,819,839	-	3,819,839
Total				\$ 29,020,927	\$ 21,771,089	\$ 6,004,839	\$ 2,340,000	\$ 25,435,928

* Adjusted by \$(30,000) to agree Series 2004 to payment schedule

The annual requirement to amortize the 2002 Series A general obligation bonds payable, outstanding at June 30, 2012, is as follows.

Year Ending June 30	Principal	Interest	Total
2013	\$ 215,000	\$ 93,465	\$ 308,465
2014	250,000	84,434	334,434
2015	130,000	76,834	206,834
2016	150,000	71,159	221,159
2017	110,000	65,774	175,774
2018-22	860,000	230,548	1,090,548
2023-27	678,334	2,206,722	2,885,056
Total	\$ 2,393,334	\$ 2,828,936	\$ 5,222,270

The annual requirement to amortize the Series 2004 general obligation bonds payable, outstanding at June 30, 2012, is as follows.

Year Ending June 30	Principal	Interest	Total
2013	\$ 35,000	\$ 101,077	\$ 136,077
2014	30,000	100,005	130,005
2015	30,000	98,955	128,955
2016	25,000	97,992	122,992
2017	140,000	95,018	235,018
2018-22	670,000	394,335	1,064,335
2023-27	280,000	283,185	563,185
2028-30	1,257,115	1,510,060	2,767,175
Total	\$ 2,467,115	\$ 2,680,627	\$ 5,147,742

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The annual requirement to amortize the Series 2006 C general obligation bonds payable, outstanding at June 30, 2012, is as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 90,000	\$ 85,600	\$ 175,600
2014	100,000	81,800	181,800
2015	115,000	77,500	192,500
2016	130,000	72,600	202,600
2017	145,000	67,100	212,100
2018-22	1,030,000	226,400	1,256,400
2023-27	922,260	711,240	1,633,500
2028-32	1,036,028	3,013,972	4,050,000
Total	<u>\$ 3,568,288</u>	<u>\$ 4,336,212</u>	<u>\$ 7,904,500</u>

The annual requirement to amortize the Series 2008 A general obligation bonds payable, outstanding at June 30, 2012, is as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,000	\$ 147,462	\$ 157,462
2014	15,000	147,369	162,369
2015	40,000	146,275	186,275
2016	65,000	144,356	209,356
2017	90,000	141,169	231,169
2018-22	900,000	605,656	1,505,656
2023-27	1,745,000	262,763	2,007,763
2028-32	705,975	2,095,752	2,801,727
2033-34	485,658	3,969,342	4,455,000
Total	<u>\$ 4,056,633</u>	<u>\$ 7,660,144</u>	<u>\$ 11,716,777</u>

The annual requirement to amortize the Series 2010 B general obligation bonds payable, outstanding at June 30, 2012, is as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 15,000	\$ 106,900	\$ 121,900
2014	20,000	106,450	126,450
2015	25,000	105,775	130,775
2016	35,000	104,875	139,875
2017	40,000	103,550	143,550
2018-22	340,000	483,100	823,100
2023-27	650,000	367,500	1,017,500
2028-32	1,115,000	150,625	1,265,625
2033-37	588,027	5,493,557	6,081,584
2038-42	1,725,926	10,355,825	12,081,751
2043-47	1,489,283	13,525,890	15,015,173
2048-50	902,483	11,756,095	12,658,578
Total	<u>\$ 6,945,719</u>	<u>\$ 42,660,142</u>	<u>\$ 49,605,861</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The annual requirement to amortize the 2012 Series A general obligation bonds payable, outstanding at June 30, 2012, is as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 20,000	\$ 51,520	\$ 71,520
2014	20,000	60,850	80,850
2015	170,000	58,950	228,950
2016	190,000	54,400	244,400
2017	150,000	49,300	199,300
2018-22	1,045,000	164,875	1,209,875
2023-24	590,000	17,800	607,800
Total	<u>\$ 2,185,000</u>	<u>\$ 457,695</u>	<u>\$ 2,642,695</u>

The annual requirement to amortize the 2012 Series B general obligation bonds payable, outstanding at June 30, 2012, is as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ -	\$ -
2014	-	-	-
2015	193,032	118,999	312,031
2016	169,706	122,325	292,031
2017	165,312	126,719	292,031
2018-22	728,628	741,528	1,470,156
2023-27	1,051,187	623,076	1,674,263
2028-32	1,511,974	315,326	1,827,300
Total	<u>\$ 3,819,839</u>	<u>\$ 2,047,973</u>	<u>\$ 5,867,812</u>

The annual requirement to amortize all general obligation bonds payable, outstanding at June 30, 2012, is summarized as follows.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 385,000	\$ 586,024	\$ 971,024
2014	435,000	580,908	1,015,908
2015	703,032	683,288	1,386,320
2016	764,706	667,707	1,432,413
2017	840,312	648,630	1,488,942
2018-22	5,573,628	2,846,442	8,420,070
2023-27	5,916,781	4,472,286	10,389,067
2028-32	5,626,092	7,085,735	12,711,827
2033-37	1,073,685	9,462,899	10,536,584
2038-42	1,725,926	10,355,825	12,081,751
2043-47	1,489,283	13,525,890	15,015,173
2048-51	902,483	11,756,095	12,658,578
Total	<u>\$ 25,435,928</u>	<u>\$ 62,671,729</u>	<u>\$ 88,107,657</u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

9. OTHER POSTEMPLOYMENT BENEFITS

The District implemented GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension for the fiscal year ended June 30, 2012. This implementation allows the District to report its liability for other postemployment benefits consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

Plan Description. Certificated employees who are eligible to retire under STRS or PERS with at least 12 years of services will receive a District contribution the duration of which is dependent upon years of service. District-paid benefits may extend beyond age 65. Classified employees retiring after age 50 with 12 years of service will receive a District contribution for 5 years (benefits extend beyond age 65). Management/Confidential retirees receive retiree health benefits according to the Certificated bargaining agreement. District-paid benefits include all coverage's (medical, prescription drug, dental, vision, and cancer) as well as the cost of spousal coverage. For retirement's beginning with the 2008-09 school year, District-paid benefits are limited to the cap applicable to active employees in their classification.

Funding Policy. The District uses the pay-as-you-go method to fund the retirement liability.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

	Government Activities
Annual required contribution (ARC)	\$ 1,410,472
Interest on net OPEB	92,859
Adjustment to ARC	<u>(120,182)</u>
Annual OPEB cost (expense)	1,382,519
Contribution made	<u>(401,147)</u>
Increase in OPEB obligation	981,372
OPEB obligation at beginning of year	1,857,180
OPEB obligation at end of year	<u><u>\$ 2,838,552</u></u>

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the OPEB obligation for 2012 was:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 1,426,889	28.58%	\$ 1,040,394
6/30/2011	1,413,747	42.22%	1,857,180
6/30/2012	1,382,519	29.02%	2,838,552

Funded Status and Funding Progress. As of July 1, 2011 the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$11,759,422. The annual payroll for active employees covered by the plan in the actuarial valuation for 2011-12 was \$12,858,577 for a ratio of the UAAL to covered payroll of 91.45%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future terminations, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actuarial results are compared with past experience and new estimates are made about the future.

Actuarial Methods and Assumptions. The liabilities set forth in the actuarial study are based on the actuarial assumptions described below:

Measurement Date:	July 1, 2011
Actuarial Method:	Projected Unit Credit
Discount Rate:	5%
Trend Rate:	8% for Medical, 4% for Dental/Vision/Cancer

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

10. COMPENSATED ABSENCES

The total accumulated unpaid employee compensated absences as of June 30, 2012 amounted to \$139,365.

11. EMPLOYEE RETIREMENT INCENTIVES

In fiscal year 2011, the District offered an early retirement incentive program. Eligible employees who retired by the deadline of March 15, 2011 received a \$20,000 contribution to a 403(b) annuity contract or custodial account payable in \$5,000 annual payments for four years. Eleven employees accepted the incentive. As of June 30, 2012, the remaining obligation of the District is \$165,000.

12. TAX AND REVENUE ANTICIPATION NOTES

The District issued Tax and Revenue Anticipation Notes dated March 14, 2012 in the amount of \$2,800,000. The notes mature on October 1, 2012 and bear an interest rate of 2.435%. The notes were sold to supplement the District's cash flow.

	Outstanding June 30, 2011	Additions	Deletions	Outstanding June 30, 2012
2010/11	\$ 3,531,306	\$ -	\$ 3,531,306	\$ -
2011/12	-	2,800,000	-	2,800,000
TOTAL	<u>\$ 3,531,306</u>	<u>\$ 2,800,000</u>	<u>\$ 3,531,306</u>	<u>\$ 2,800,000</u>

13. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2012, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund	
Classified Salaries	\$ 153,451
Direct Support/ Indirect Costs	24,250
Capital Outlay	9,954

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

14. COUNTY PROPERTY TAX CONTINGENT LIABILITIES

Southern Kern Unified School District's share of the estimated property tax liability based on information gathered from the Office of the Auditor-Controller of the County of Kern through June 30, 2012, for litigation and other tax refund claims pending at that time are as follows:

Total Liabilities (as of June 30, 2012)	\$ 472,782
Less: Impounds (as of June 30, 2012)	<u>189,702</u>
Net Liability	<u>\$ 283,080</u>

It should be noted that these figures do not include any appeals or litigation filed or compiled after June 30, 2012, but they do include provisions for valuation and taxes in dispute through June 30, 2012.

15. JOINT POWERS AGREEMENTS

The Southern Kern Unified School District participates in three joint ventures under joint powers agreement (JPAs): Self Insured Schools of California I (SISC I), Self Insured Schools of California II (SISC II), and Self Insured Schools of California III (SISC III). The relationship between the Southern Kern Unified School District and the JPAs is such that none of the JPAs is a component unit of Southern Kern Unified School District for financial reporting purposes.

Self Insured Schools of California I, II, and III

Purpose: Arranges for and provides workers compensation, property and liability, and health insurance coverage for their member districts.

Participants: School districts in Central and Southern California.

Governing Board: Each district provides one member for each governing board.

Summary audited financial information on SISC II as of June 30, 2012 is as follows:

	<u>SISC II</u>
Total Assets	\$ 49,847,059
Total Liabilities	<u>26,109,293</u>
Net Assets	<u>\$ 23,737,766</u>
 Total Revenues	 \$ 17,343,600
Total Expenditures	<u>10,379,035</u>
Net Increase (Decrease) in Net Assets	<u>\$ 6,964,565</u>

Current financial information on SISC I and SISC III was not available.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

16. COMMITMENTS AND CONTINGENCIES

A. Federal and State Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review of audit discloses exceptions, the District may incur a liability to grantor agencies. Although such audits could generate expenditure disallowances under term of the grants, it is believed that any required reimbursements will net be material.

B. Pending Litigation

As of June 30, 2012, there are no claims of litigation involving the District.

C. Construction Commitments

As of June 30, 2012, the District had no construction commitments.

17. ADJUSTMENT FOR RESTATEMENT

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement provides clarification of the definitions of governmental fund types. Based on this clarification, it has been determined that the Adult Education Fund, Deferred Maintenance Fund and Special Reserve Fund do not meet the criteria of a Special Revenue Fund. These funds have been combined with the General Fund, resulting in a restatement of \$4,088 to the beginning balance of the General Fund.

Work in Progress was adjusted by \$(684,538) and General Obligation Bonds Payable was adjusted by \$(30,000), resulting in a restatement of Net Assets at July 1, 2011 of \$(654,538).

18. ALTERNATIVE RETIREMENT PLAN

Plan Description

Effective October 1, 1994, the Southern Kern Unified School District adopted the SISC Defined Benefit Plan as an alternative to Social Security. The District pays the full cost of the plan and the benefits are designed to be paid out at age 65; however, benefits can be received upon termination or retirement. All benefits are 100% vested beginning on date of participation. All employees who are not participating in any other retirement plan are immediately eligible for participation. Employees who are members of, or retired from, the California Public Employees' Retirement System (CalPERS) or the State Teachers Retirement System (STRS) are generally not eligible for participation.

Funding Policy

Members do not contribute to the SISC Defined Benefit Plan. The District contributes 3.9% of the eligible member's annual payroll. The contribution is intended to provide an annual normal retirement benefit equal to 1.5% of the eligible member's final average pay for covered service up to 30 years.

The Southern Kern Unified School District's contribution to the SISC Defined Benefit Plan for the fiscal year ended June 30, 2012 was \$33,952 and equaled 100% of the required contribution.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

19. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS) and certificated employees are members of the California State Teachers' Retirement System (STRS).

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

Funding Policy

Active plan members are required to contribute to CalPERS 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by the state statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2012, 2011 and 2010 were \$340,078, \$405,875, and \$385,046, respectively, and equal 100% of the required contributions for each year.

STRS

Plan Description

The District contributes to the State Teachers' Retirement Systems (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2012, 2011, and 2010 were \$813,876, \$898,512, and \$964,442, respectively, and equal 100% of the required contributions for each year.

Required Supplementary
Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive-(Negative)
	Original	Final		
REVENUES				
Revenue Limit Sources				
State Apportionments	\$ 11,995,295	\$ 12,179,462	\$ 12,149,843	\$ (29,619)
Local Sources	4,065,535	3,776,594	3,936,841	160,247
Revenue Limit Transfers	60,889	26,483	45,297	18,814
Total Revenue Limit Sources	16,121,719	15,982,539	16,131,981	149,442
Federal Revenues	1,305,750	1,749,137	1,589,185	(159,952)
Other State Revenues	4,671,688	4,836,903	4,962,686	125,783
Other Local Revenues	712,906	1,081,102	790,737	(290,365)
Total Revenues	22,812,063	23,649,681	23,474,589	(175,092)
EXPENDITURES				
Certificated Salaries	10,639,342	10,216,931	10,211,823	5,108
Classified Salaries	3,449,990	3,323,520	3,476,971	(153,451)
Employee Benefits	4,840,875	5,120,145	5,054,560	65,585
Books and Supplies	998,976	1,621,486	1,031,284	590,202
Service and Other Operating Expenditures	2,486,757	2,751,619	2,190,266	561,353
Other Outgo	295,000	315,000	171,791	143,209
Direct Support/Indirect Costs	(27,676)	(24,250)	-	(24,250)
Capital Outlay	26,914	123,803	133,757	(9,954)
Total Expenditures	22,710,178	23,448,254	22,270,452	1,177,802
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	101,885	201,427	1,204,137	1,002,710
OTHER FINANCING SOURCES (USES)				
Operating Transfers In (Note 4B)	-	-	98,600	98,600
Operating Transfers Out (Note 4B)	(253,074)	(194,344)	(194,344)	-
Total Other Financing Sources (Uses)	(253,074)	(194,344)	(95,744)	98,600
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ (151,189)	\$ 7,083	1,108,393	\$ 1,101,310
FUND BALANCE - JULY 1, 2011, as Previously Reported			3,655,830	
Adjustment for Restatement (Note 17)			4,088	
FUND BALANCE - JULY 1, 2011, as Restated			3,659,918	
FUND BALANCE - JUNE 30, 2012			\$ 4,768,311	

The Notes to Financial Statements are an integral part of this statement

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
OTHER POSTEMPLOYMENT BENEFITS (OPEB) SCHEDULE OF FUNDING PROGRESS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
7/1/2009	\$ -	\$ 10,965,041	\$ 10,965,041	0%	\$ 13,115,025	83.61%
7/1/2011	-	11,759,422	11,759,422	0%	12,858,577	91.45%

The Notes to Financial Statements are an integral part of this statement

Supplementary Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUND
JUNE 30, 2012

STATEMENT 1

	<u>CAFETERIA FUND</u>
<u>ASSETS</u>	
Cash	
Cash in County Treasury	\$ 292,709
Cash in Revolving Fund	15,293
Accounts Receivable	114,941
Inventory	<u>83,022</u>
 TOTAL ASSETS	 <u>\$ 505,965</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Accounts Payable	<u>\$ 43,426</u>
 Fund Balance	
Nonspendable	98,315
Restricted	<u>364,224</u>
 Total Fund Balance	 <u>462,539</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 505,965</u>

The Notes to Financial Statements are an integral part of this statement.

STATEMENT 2

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>CAFETERIA FUND</u>
<u>REVENUES</u>	
Federal Revenues	\$ 1,024,029
Other State Revenues	90,126
Other Local Revenues	<u>190,556</u>
Total Revenues	<u>1,304,711</u>
<u>EXPENDITURES</u>	
Pupil Services:	
Food Services	1,066,511
Plant Services	<u>2,652</u>
Total Expenditures	<u>1,069,163</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	235,548
<u>FUND BALANCE - JULY 1, 2011</u>	<u>226,991</u>
<u>FUND BALANCE - JUNE 30, 2012</u>	<u>\$ 462,539</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
JUNE 30, 2012

STATEMENT 3

	<u>BOND INTEREST AND REDEMPTION FUND</u>
<u>ASSETS</u>	
Cash	
Cash in County Treasury	\$ 721,404
Accounts Receivable	<u> -</u>
TOTAL ASSETS	<u><u>\$ 721,404</u></u>
<u>LIABILITIES AND FUND BALANCE</u>	
Fund Balance	
Assigned	<u>\$ 721,404</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 721,404</u></u>

The Notes to Financial Statements are an integral part of this statement.

STATEMENT 4

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BOND INTEREST AND REDEMPTION FUND
<u>REVENUES</u>	
Other State Revenues	\$ 19,834
Other Local Revenues	<u>945,507</u>
Total Revenues	<u>965,341</u>
<u>EXPENDITURES</u>	
Debt Service:	
Principal	315,000
Interest	<u>638,095</u>
Total Expenditures	<u>953,095</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,246
<u>FUND BALANCE - JULY 1, 2011</u>	<u>709,158</u>
<u>FUND BALANCE - JUNE 30, 2012</u>	<u>\$ 721,404</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2012

	BUILDING FUND	CAPITAL FACILITIES FUND	SPECIAL RESERVE FUND	TOTAL
<u>ASSETS</u>				
Cash				
Cash in County Treasury	\$ 82,091	\$ 439,082	\$ 1,088	\$ 522,261
Account Receivable	117,441	785	2	118,228
Due from Other Funds	-	-	97,172	97,172
TOTAL ASSETS	<u>\$ 199,532</u>	<u>\$ 439,867</u>	<u>\$ 98,262</u>	<u>\$ 737,661</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts Payable	\$ -	\$ 2,237	\$ -	\$ 2,237
Due to Other Funds	97,172	-	102,000	199,172
Total Liabilities	97,172	2,237	102,000	201,409
Fund Balances				
Assigned	102,360	437,630	(3,738)	536,252
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 199,532</u>	<u>\$ 439,867</u>	<u>\$ 98,262</u>	<u>\$ 737,661</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUILDING FUND	CAPITAL FACILITIES FUND	SPECIAL RESERVE FUND	TOTAL
<u>REVENUES</u>				
Other Local Revenues	\$ 647	\$ 83,026	\$ 221	\$ 83,894
<u>EXPENDITURES</u>				
General Administration				
All Other General Administration	-	12,174	-	12,174
Plant Services	-	2,253	-	2,253
Facilities Acquisition and Construction	-	109,764	6,750	116,514
Debt Service:				
Interest	-	-	194,344	194,344
Total Expenditures	-	124,191	201,094	325,285
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	647	(41,165)	(200,873)	(241,391)
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	-	-	291,516	291,516
Operating Transfers Out	(97,172)	-	(98,600)	(195,772)
Proceeds from Sale of Bonds	117,301	-	-	117,301
Other Uses	-	-	(247,140)	(247,140)
Total Other Financing Sources (Uses)	20,129	-	(54,224)	(34,095)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	20,776	(41,165)	(255,097)	(275,486)
<u>FUND BALANCES - JULY 1, 2011</u>	81,584	478,795	251,359	811,738
<u>FUND BALANCES - JUNE 30, 2012</u>	\$ 102,360	\$ 437,630	\$ (3,738)	\$ 536,252

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES - STUDENT BODY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BALANCE JULY 1, 2011	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2012
<u>Rosamond High School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 33,539	\$ 193,421	\$ 145,397	\$ 81,563
TOTAL ASSETS	\$ 33,539	\$ 193,421	\$ 145,397	\$ 81,563
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ 16,000	\$ -	\$ 16,000
Due to Student Groups				
Club Accounts	21,630	122,714	85,283	59,061
General ASB Accounts	11,909	54,707	60,114	6,502
Total Due to Student Groups	33,539	177,421	145,397	65,563
TOTAL LIABILITIES	\$ 33,539	\$ 193,421	\$ 145,397	\$ 81,563
<u>Tropico Middle School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 28,157	\$ 59,557	\$ 57,301	\$ 30,413
TOTAL ASSETS	\$ 28,157	\$ 59,557	\$ 57,301	\$ 30,413
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	-	-	-	-
General ASB Accounts	28,157	59,557	57,301	30,413
Total Due to Student Groups	28,157	59,557	57,301	30,413
TOTAL LIABILITIES	\$ 28,157	\$ 59,557	\$ 57,301	\$ 30,413
<u>Rosamond Elementary School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 31,041	\$ 5,011	\$ 18,640	\$ 17,412
TOTAL ASSETS	\$ 31,041	\$ 5,011	\$ 18,640	\$ 17,412
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	-	-	-	-
General ASB Accounts	31,041	5,011	18,640	17,412
Total Due to Student Groups	31,041	5,011	18,640	17,412
TOTAL LIABILITIES	\$ 31,041	\$ 5,011	\$ 18,640	\$ 17,412

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - STUDENT BODY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BALANCE JULY 1, 2011	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2012
<u>West Park Elementary School</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 38,715	\$ 59,986	\$ 85,199	\$ 13,502
TOTAL ASSETS	<u>\$ 38,715</u>	<u>\$ 59,986</u>	<u>\$ 85,199</u>	<u>\$ 13,502</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Student Groups				
Club Accounts	-	-	-	-
General ASB Accounts	38,715	59,986	85,199	13,502
Total Due to Student Groups	<u>38,715</u>	<u>59,986</u>	<u>85,199</u>	<u>13,502</u>
TOTAL LIABILITIES	<u>\$ 38,715</u>	<u>\$ 59,986</u>	<u>\$ 85,199</u>	<u>\$ 13,502</u>
<u>Total</u>				
<u>ASSETS</u>				
Cash on Hand and in Banks	\$ 131,452	\$ 317,975	\$ 306,537	\$ 142,890
TOTAL ASSETS	<u>\$ 131,452</u>	<u>\$ 317,975</u>	<u>\$ 306,537</u>	<u>\$ 142,890</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ 16,000	\$ -	\$ 16,000
Due to Student Groups				
Club Accounts	21,630	122,714	85,283	59,061
General ASB Accounts	109,822	179,261	221,254	67,829
Total Due to Student Groups	<u>131,452</u>	<u>301,975</u>	<u>306,537</u>	<u>126,890</u>
TOTAL LIABILITIES	<u>\$ 131,452</u>	<u>\$ 317,975</u>	<u>\$ 306,537</u>	<u>\$ 142,890</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
BOARD OF TRUSTEES AND ORGANIZATION
 JUNE 30, 2012

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Scott Starkey	President	December 2012
Sandy Kirk	Vice President	December 2014
J. Vincent Otis	Clerk	December 2014
Mario Gutierrez	Member	December 2014
Muriel Ott	Member	December 2012

ADMINISTRATION

Kent Taylor	Superintendent
Leanne Hargus	Assistant Superintendent, Educational Services
Jeffery Weinstein	Assistant Superintendent, Business Services

ORGANIZATION

The Southern Kern Unified School District was established in 1962. The District has not made any changes in District boundaries. During the 2011/2012 school year, the District operated schools, one middle school, one high school and two alternative education schools (continuation high school and independent study school).

SCHEDULE 2

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Second Period Report	Second Period Report After Finding 2012-3 and 2012-4	Annual Report
Elementary			
Kindergarten	237.92	238.91	238.28
First through Third	661.28	663.51	660.10
Fourth through Sixth	583.37	609.79	608.65
Seventh and Eighth	411.50	411.58	409.17
Special Education	81.59	78.63	78.70
Non-Public	1.37	1.47	1.58
Extended Year	0.16	0.18	0.26
Total	<u>1,977.19</u>	<u>2,004.07</u>	<u>1,996.74</u>
High School			
Ninth through Twelfth	775.47	774.33	769.49
Continuation Education	62.90	62.90	61.82
Special Education	47.36	45.96	45.28
Total	<u>885.73</u>	<u>883.19</u>	<u>876.59</u>
Grand Total	<u><u>2,862.92</u></u>	<u><u>2,887.26</u></u>	<u><u>2,873.33</u></u>

See accompanying Notes to Supplementary Information

SCHEDULE 3

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GRADE LEVEL	1982-83 ACTUAL MINUTES	RECALCULATED 1982-83 MINUTES REQUIREMENT*	1986-87 MINUTES REQUIREMENT	RECALCULATED 1986-87 MINUTES REQUIREMENT*	2011-12 ACTUAL MINUTES	NUMBER OF DAYS TRADITIONAL CALENDAR	NUMBER OF DAYS MULTITRACK CALENDAR	STATUS
Kindergarten	40,390	37,697	36,000	33,600	55,185	177	N/A	In Compliance
Grade 1	48,160	44,949	50,400	47,040	53,595	177	N/A	In Compliance
Grade 2	48,160	44,949	50,400	47,040	53,595	177	N/A	In Compliance
Grade 3	48,160	44,949	50,400	47,040	53,595	177	N/A	In Compliance
Grade 4	48,305	45,085	54,000	50,400	53,595	177	N/A	In Compliance
Grade 5	48,305	45,085	54,000	50,400	53,595	177	N/A	In Compliance
Grade 6	57,545	53,709	54,000	50,400	56,631	177	N/A	In Compliance
Grade 7	57,545	53,709	54,000	50,400	56,631	177	N/A	In Compliance
Grade 8	57,545	53,709	54,000	50,400	56,631	177	N/A	In Compliance
Grade 9	58,625	54,717	64,800	60,480	63,870	177	N/A	In Compliance
Grade 10	58,625	54,717	64,800	60,480	63,870	177	N/A	In Compliance
Grade 11	58,625	54,717	64,800	60,480	63,870	177	N/A	In Compliance
Grade 12	58,625	54,717	64,800	60,480	63,870	177	N/A	In Compliance

* Amounts reduced as permitted by Education Code Section 46201.2(a).

See accompanying Notes to Supplementary Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>GENERAL FUND</u>	(BUDGET) 2013*	2012	2011	2010
Revenues and Other Financial Sources	\$ 20,917,437	\$ 23,575,200	\$ 25,443,825	\$ 25,919,848
Expenditures	22,149,101	22,270,452	23,838,876	27,166,177
Other Uses and Transfers Out	24,466	194,344	200,000	200,000
Total Outgo	22,173,567	22,464,796	24,038,876	27,366,177
Change in Fund Balance	(1,256,130)	1,110,404	1,404,949	(1,446,329)
Ending Fund Balance	\$ 3,510,104	\$ 4,766,234	\$ 3,655,830	\$ 2,205,881
Available Reserves	\$ 3,049,363	\$ 4,291,214	\$ 3,120,237	\$ 1,743,872
Reserve for Economic Uncertainties	\$ -	\$ -	\$ 765,876	\$ 880,002
Unassigned Fund Balance	\$ 3,049,363	\$ 4,291,214	\$ 2,354,361	\$ 863,870
Available Reserves as a Percentage of Total Outgo	13.75%	19.10%	12.98%	6.37%
Total Long-Term Debt***	**	\$ 28,578,475	\$ 26,459,420	\$ 25,701,015
Average Daily Attendance at P-2	2,861	2,887	3,015	3,157

The General Fund balance has increased by \$2,560,353 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$1,256,130. For a district this size, the State recommends available reserves of at least 3% of total General Fund expenditures, transfers out. Southern Kern Unified School District has met the State's minimum requirements.

Average daily attendance has decreased by 270 ADA over the past two years. A decrease of 26 ADA is anticipated during fiscal year 2012-13.

* Based on July 1 budget for General Fund only, included for analytical purposes only and has not been subjected to audit.

** Not determined.

*** Restated.

See accompanying Notes to Supplementary Information

SCHEDULE 5

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Defense			
Direct:			
JROTC	12.unk	none	\$ 13,680
U.S. Department of Education:			
Passed through CDE:			
* NCLB Title I	84.010	14329	582,207
* ARRA- Title I	84.389	15005	125,029
NCLB Title II A - Improving Teacher Quality	84.367	14341	129,158
NCLB Title II A - Administrative Training	84.298A	14344	887
NCLB Title II - Enhancing Education Through Technology	84.318	14334	(1,823)
ARRA Preschool Local Entitlement	84.391	15002	(563)
IDEA Local Assistance	84.027	13379	505,674
ARRA - IDEA - Special Education	84.391	15003	(12,104)
ARRA - IDEA - Preschool Grants	84.392	15000	(708)
NCLB Title III LEP - Limited English	84.365	14346	36,056
Carl Perkins Vocation Education	84.048	14894	26,430
Education Jobs Fund	84.410	25152	9,267
Total Department of Education			1,399,510
U.S. Department of Agriculture			
Passed through CDE:			
* National School Lunch	10.555	13391	720,650
* School Breakfast Program	10.553	13390	279,973
* Meal Supplements	10.555	13391	23,406
Total Department of Agriculture			1,024,029
U.S. Department of Health Services			
Passed through California Department of Health Services:			
MediCal Reimbursement MAA Financial Billings	93.778	10013	33,692
Total Federal Expenditures			\$ 2,470,911
<u>Reconciliation of Federal Awards</u>			
Total Expenditures			\$ 2,470,911
MediCal (unspent)	93.778	10013	142,303
Total Federal Revenues			\$ 2,613,214
* Major Program			

See accompanying Notes to Supplementary Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT FORM
WITH AUDITED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>BUILDING FUND</u>	<u>SPECIAL RESERVE FUND (CAPITAL)</u>
June 30, 2012 Annual Financial and Budget Report Fund Balances	<u>\$ 82,231</u>	<u>\$ 146,230</u>
<u>Adjustments and Reclassifications</u>		
(Decrease) Cash with Fiscal Agent for: Payoff of COPS	-	(247,140)
Increase Accounts Receivable for: Sale of Bonds	117,301	-
Increase Due from Other Funds for: Transfer of Bonds Proceeds	-	97,172
(Increase) Due to Other Funds for: Transfer of Bonds Proceeds	<u>(97,172)</u>	<u>-</u>
Net Adjustments and Reclassifications	<u>20,129</u>	<u>(149,968)</u>
June 30, 2012 Audited Financial Statements Fund Balances	<u><u>\$ 102,360</u></u>	<u><u>\$ (3,738)</u></u>

See accompanying Notes to Supplementary Information

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance 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 entities. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required for all districts, including basic aid districts.

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 46201 through 46206.

C. 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.

D. Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southern Kern Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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.

E. Reconciliation of Annual Financial and Budget Report Form with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt as reported on the Annual Form to the audited financial statements.

Jeanette L. Garcia,
CPA

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
Southern Kern Unified School District
Rosamond, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southern Kern Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Southern Kern Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southern Kern Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 would not necessarily 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 financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompany Schedule of Audit Findings and Questioned Costs as Findings 2012-1 and 2012-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Kern Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2012-3 through 2012-5.

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

Southern Kern Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, Board of Trustees, others within the District, the California Department of Education, the State Controller's Office, and 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.

Jeannette L. Garcia + Associates

December 14, 2012



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Jeanette L. Garcia,
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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

Independent Auditor's Report

Board of Trustees
Southern Kern Unified School District
Rosamond, California

Compliance

We have audited the Southern Kern Unified School District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of audit 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 the District's management. Our responsibility is to express an opinion on Southern Kern Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 legal determination on the District's compliance with those requirements.

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

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Internal Control Over Compliance

Management of Southern Kern Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 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 over compliance 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 management, Board of Trustees, others within the District, the California Department of Education, the State Controller's Office, and 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.

Jeanette L. Garcia + Associates

December 14, 2012

Jeanette L. Garcia,
CPA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Southern Kern Unified School District
Rosamond, California

We have audited the Southern Kern Unified School District's compliance with each of the State compliance requirements as listed in Standards and Procedures for Audits of California K-12 Local Education Agencies, issued by the Education Audit Appeals Panel for the year ended June 30, 2012. Compliance with the requirements listed below is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements based on the compliance audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance 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 issued by the Education Audit Appeals Panel. The compliance audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as the auditor considered necessary in the circumstances. We believe that our compliance audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on the District's compliance with the requirements listed below.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	2	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	No (see below)
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

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	Procedures in Audit Guide	Procedures Performed
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction (including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	No (see Below)
Districts or Charter Schools with Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not Applicable
Mode of Instruction	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not Applicable
Annual Instructional Minutes - Classroom Based	4	Not Applicable

We did not test compliance for Early Retirement Incentive Program because the District did not participate in the program. We did not test compliance requirements for Class Size Reduction Option Two Classes because the District did not operate Option Two Classes.

In our opinion, the Southern Kern Unified School District complied, in all material respects, with the applicable compliance requirements referred to above. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying Schedule of Audit Findings and Questioned Costs as items 2012-3 through 2012-5.

This report is intended solely for the information and use of the management, Board of Trustees, others within the District, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jeannette L. Barcin + Associates

December 14, 2012

Finding and Recommendations

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified?

 X Yes None Reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified?

 Yes X None reported

Type of auditor's report issued on compliance for
major programs:

Unqualified

Any audit finding disclosed that are required
to be reported in accordance with Circular A-133,
Section .510(a)?

 Yes X No

Identification of major programs:

CFDA Number(s)

84.010, 84.389

10.553, 10.555

Name of Federal Program of Cluster

NCLB Title I

Child Nutrition Cluster

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 Yes X No

State Awards

Internal control over state programs:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified?

 X Yes None reported

Noncompliance material to financial statements noted?

 Yes X No

Type of auditor's report issued on compliance for
state programs:

Unqualified

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Section II – Financial Statement Findings

FINDING 2012-1

Code 30000

Associated Student Body - Rosamond High School

Controls over the Rosamond High School ASB appear to be weak. We noted the following exceptions:

- Deposits to the bank were not adequately supported by receipts and other supporting documentation. We were unable to determine that deposits were intact and timely due to the lack of supporting documentation.
- Bank deposits do not appear to be timely. We noted delays of up to four months between the receipt of money and the deposit in the bank.
- Expenditure documentation is poor. The supporting documentation for four of twelve expenditures tested could not be located. Four additional expenditures were not supported by an invoice. Seven of the twelve expenditures tested were not properly approved prior to payment.
- Revenue potentials are not prepared for fundraising activities.
- Controls over ticket sales appear to be poor. We were unable to locate any ticket control procedures, such as event summaries and ticket inventories.

RECOMMENDATION

The District should require the student body accounts be maintained in accordance with the California State Department of Education School Business Publication No. 3 – “Accounting Procedures for Student Organizations.” The FCMAT ASB Accounting Desk Manual is also an excellent procedure guide. Training and District monitoring of ASBs is also recommended.

DISTRICT RESPONSE

In August of 2012, all staff handling ASB accounts and/or are a part of the ASB processes went through an ASB training. At this training, a new procedural manual was introduced that complied with all FCMAT ASB Accounting Policies and Procedures. This new ASB manual was reviewed by our CPA Audit Team. In addition, per new manual, ASB staff must submit monthly reconciliations to the business office for review.

FINDING 2012-2

Code 30000

Associated Student Body - Tropico Middle School

Controls over the Tropico Middle School ASB appear to be weak. We noted the following exceptions:

- Deposits to the Bank were not adequately supported by receipts and other supporting documentation. We were unable to determine that deposits were intact and timely due to lack of supporting documentation.
- Bank deposits do not appear to be timely.
- Revenue potential are not prepared for fundraising activities.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

RECOMMENDATION

The District should require the student body accounts be maintained in accordance with the California State Department of Education School Business Publication No. 3 – “Accounting Procedures for Student Organizations.” The FCMAT ASB Accounting Desk Manual is also an excellent procedure guide. Training and District monitoring of ASBs is also recommended.

DISTRICT RESPONSE

In August of 2012, all staff handling ASB accounts and/or are a part of the ASB processes went through an ASB training. At this training, a new procedural manual was introduced that complied with all FCMAT ASB Accounting Policies and Procedures. This new ASB manual was reviewed by our CPA Audit Team. In addition, per new manual, ASB staff must submit monthly reconciliations to the business office for review.

Section III – Federal Award Findings and Questioned Costs

None Reported.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Section IV – State Award Findings and Questioned Costs

FINDING 2012-3
Code 10000
Attendance Reporting

Specific Requirements: LEAs are responsible for maintaining accurate and adequate attendance records to support the attendance reported to the State as per Education Code Section 44809 and Title 5, CCR, Sections 401 and 421.

Condition: We reviewed the District's Second Period Report of Attendance (P-2) and the District's Annual Report of Attendance and supporting documentation for each report and discovered clerical errors in the District's spreadsheet used to accumulate attendance data at P-2. As a result of the errors, ADA was understated at P-2 by 29.64 ADA.

Questioned Costs: Not Applicable.

Context: We reviewed the supporting documentation used to complete the Second Period Report of Attendance and discovered the errors during our review.

Effect: The District will need to revise its Second Period and Annual Reports of Attendance to reflect the corrected ADA amounts. This results in a gain of 29.54 ADA, or approximately \$156,000 in revenue limit funding.

Cause: Unknown.

Recommendation: The District should, and has revised its Second Period Report of Attendance to reflect the corrections noted. Further, the District should use greater care when preparing the supporting documents to ensure that data is accurate and formulas are properly entered in spreadsheets. Someone other than the attendance clerk should review the compiled attendance data to further ensure reporting accuracy.

District Response: The attendance report has been revised and all reports generated by the attendance clerk are now being reviewed by the Categorical Analyst in the business office to ensure accuracy.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINDING 2012-4
Code 10000
Attendance Reporting

Specific Requirements: In order to qualify for ADA apportionment, a student must be scheduled to attend for at least the statutory minimum day requirement for the grade level and program enrolled. As per Education Code Section 46142(a), the minimum school day in any junior high school or high school is 240 minutes and is calculated using the two day averaging rule. However, the absolute minimum day for these grade levels may not fall below 180 minutes.

Condition: We noted that certain high school students were not enrolled for the statutory minimum day.

Questioned Costs: Not Applicable.

Context: We tested a sample of students at Rosamond High School to ensure they were enrolled for the minimum school day and found twenty two students who were not compliant with the 240 minute requirement on minimum day schedules. The students were identified by the "No Course" sign in/sign out sheets.

Effect: Because the tested students fail to satisfy the minimum day requirement, the ADA for those students is disallowed. This results in a loss of 1.17 ADA, or \$6,168 in revenue limit funding.

Cause: Unknown.

Recommendation: The District should revise and has revised its Second Period Report of Attendance to remove the disallowed ADA. Further, the District should ensure that all students are enrolled for a minimum of 240 minutes per day.

District Response: The attendance report has been revised and the procedure for reporting attendance for students on minimum days at Rosamond High School has been revised to ensure compliance with the proper attendance report formula. Furthermore, the Categorical Analyst in the business office reviews the reports to ensure accuracy.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINDING 2012-5

Code 40000

After School Education and Safety (ASES)

Specific Requirements: Under the provisions of Education Code Section 8483.75(4), each program must provide cash or in-kind local funds equal to or not less than one-third of the total grant amount. Facilities or space usage may fulfill no more than 25 percent of the required local contribution.

Condition: The District exceeded the maximum amount of facilities usage allowed in determining their in-kind contribution. As a result, the District's match was inadequate to meet the one-third requirement by \$43,294.

Questioned Costs: A portion of the one-third match totaling \$43,294 is questioned.

Context: The District's matching requirement was \$111,000, of which facilities usage was capped at \$27,750. The excess amount of the local match fulfilled through facilities usage was \$43,294.

Effect: The District's match was below the required one-third by \$43,294.

Cause: Unknown.

Recommendation: The District should seek out additional sources of in-kind contributions for the ASES Program. The in-kind contributions should be monitored to ensure compliance with the grant requirements.

District Response: The Categorical Analyst attended a categorical training at the county offices to better understand the requirements the District must adhere to for Maintenance of Effort, Cash Contributions, and Facility Usage for the ASES Program. These areas will be monitored to ensure proper accounting and compliance.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

Number: 2011-1

Finding Code: 30000 and 60000

Criteria: School districts are required to maintain all student body accounts in accordance with the California State Department of Education School Business Administration Publication No. 3 – “*Accounting Procedures for Student Organizations.*”

Condition: The following lists school student body accounts compliance with California State Department of Finance:

School	Monthly Financial Statements Prepared	Monthly Bank Reconciliations Prepared	Two Signatures on Checks	Minutes Approve Expenditures	Expenses Supported by Documents	Cash Receipts Issued
Rosamond H.S.	*	*	No	Yes	Yes	Yes
Rosamond E.S.	Yes	Yes	No	Yes	Yes	Yes
Tropico M.S.	Yes	Yes	No	Yes	Yes	Yes
West Park E.S.	Yes	Yes	Yes	Yes	Yes	*

(*) - Supporting documentation not provided to satisfy compliance issues.

Questioned Costs: None.

Context:

	Number	Amount
Population	60	N/A
Sample Size	60	N/A
Findings	60	N/A

Effect: Lack of proper reconciliation, reporting and approvals can cause doubt as to the effectiveness of established internal control.

Cause: Rosamond High School did not provide all monthly financial reports, and did not provide all bank statements. Rosamond High School, Rosamond Elementary School and Tropico Middle School had some checks that did not have two signatures. Cash receipts were not provided for West Park Elementary School.

Recommendation: This District should require the student body accounts be maintained in accordance with the California State Department of Education School Business Administration Publication No. 3 - “*Accounting Procedures for Student Organizations*” Among other things, these procedures required all monthly activity shown on financial statements be reconciled to bank accounts, receipts and disbursements.

Current Status: Partially Implemented.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

Number: 2011-2

Finding Code: 10000 and 40000

Criteria: Attendance Accounting Program – Class Size Reduction – The District must correctly track, calculate and report eligible pupils on Form J-7 CSR in order to receive appropriate class size reduction funding.

Condition: We noted the Class Size Reduction Form J-7 CSR had been incorrectly computed. The Form J-7 CSR had combination classes entered in incorrect number of pupils enrolled in each class sections.

Questioned Costs: Ineligible CSR funding of \$3,213.

Context:

Grade Level	Number of Classes	Reported Pupils (Population)	Total Funding Received	Incorrectly Reported Classes (Finding)	Incorrectly Reported Classes (Finding - Students)	Funding on Incorrectly Reported Students Findings - Funding
Combination	4	70	\$ 74,970	-	3	\$ 3,213
Kindergarten	8	112	119,952	-	-	-
Grade 1	10	144	154,224	-	-	-
Grade 2	8	112	119,952	-	-	-
Grade 3	8	112	119,952	-	-	-
Total	38	550	\$ 589,050	-	3	\$ 3,213

Effect: The overstatement of CSR pupils resulted in an over-funding of \$3,213.

Cause: One K and 1st grade teacher's total average enrollment was equal to 23.08 and should have been in the category of 22.95 to 24.94 instead of 21.45 to 22.44 on the Form J-7 CSR. Another K and 1st Grade teacher's total average enrollment was equal to 22.51 and should have been in the category of 22.45 to 22.94 instead of 21.45 to 22.44 on the Form J-7 CSR.

Recommendation: The District should amend their 2010-11 Form J-7 CSR to decrease the reported eligible CSR pupils by 3. In addition, we recommend the District establish review procedures to assure that information is entered into the correct sections of the Form J-7 CSR.

Current Status: Implemented.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Number: 2011-3

Finding Code: 10000 and 40000

Criteria: Attendance Accounting – District attendance reports must accurately reflect the positive attendance for the fiscal year and must be supported by appropriate data.

Condition: While testing attendance reports we noted that the attendance staff is not taking due care in reporting attendance.

Questioned Costs: Ineligible ADA funding \$71,184

Context:

	<u>Number</u>	<u>Amount</u>
Population	3,015.13	\$ 19,583,028
Sample Size	109.48	\$ 711,064
Findings	10.96	\$ 71,184

Effect: Improper documentation of attendance results in inaccurate state attendance reporting and loss of attendance apportionment.

Cause: Tropico Middle School:

1. We noted 9 out of 153 teacher rosters in month 8 were not signed.
2. We noted gain and loss for the 7th grade per the Attendance Summary by Grade Report did not agree to the Monthly Attendance Report.
3. We noted that two students that were reported as absent for the entire day had been reported as present in the Monthly Attendance Report.
4. We noted that one student completed Saturday school to make up for absences; however the absences were not corrected on the Monthly Attendance Report.

Rare Earth High School:

1. We noted none of the month 8 teacher rosters were signed or dated.
2. We noted apportioned hours and max apportioned hours per the Monthly Attendance Summary Report's did not agree to the Hourly Attendance Reports.

Recommendations: We recommend the District establish procedures to verify that the figures and amounts used to report their P-2 and Annual Attendance are supported by accurate source documentation. In addition, the District should establish procedures to assure absences and Saturday school are accurately recorded on the Monthly Attendance Report. Also, we recommend the District amend the P-2 and Annual Attendance Reports.

Current Status: Implemented.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Number: 2011-4

Finding Code: 10000 and 40000

Criteria: Attendance Accounting – Independent Study – Independent study attendance must be supported by completed contracts and accurate attendance reports.

Condition: We noted the following deficiencies:

Abraham Lincoln:

1. We noted that seven out of ten independent study contracts tested were signed after the commencement date.
2. We noted that two of the ten independent study contracts tested were not signed by all required parties.

This results in the independent study contracts being invalid. The invalid contracts totaling 171 days have resulted in the ADA being overstated by 9 ADA.

Questioned Costs: Ineligible ADA funding of \$58,454.

Context:

	<u>Number</u>	<u>Amount</u>
Population	3,015.13	\$ 19,583,028
Sample Size	10.00	\$ 64,949
Findings	9.00	\$ 58,454

Effect: The District could potentially lose apportionment due to inadequate support of short-term independent study.

Cause: Principal, teachers, students and parents are not instructed to sign and date the independent study contract prior to commencement.

Recommendation: We recommend that the school site be instructed to ensure that all independent study contracts be signed and dated prior to commencement in order for the contract to be valid and in order to receive ADA credit.

Current Status: Implemented.

SOUTHERN KERN UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Number: 2011-5

Finding Code: 50000

Criteria: Title I – CFDA Number 84.010 – Pass Through Identifying Number 3010

Federal Guidelines under OMB Circular A-133 require that personnel costs charged to the program be supported by time sheets (personnel activity reports) for multi-funded positions or semi-annual certifications for single funded positions in order to document the time spent on the program.

Condition: District personnel did not complete time sheets (personnel activity reports) for the employees who are funded by more than one program. In addition, District personnel did not complete the required semi-annual certifications.

Questioned Costs: Salaries and benefits charged to the federal program during 2010/2011 of \$307,664.

Context:

	<u>Number</u>	<u>Amount</u>
Population	N/A	\$ 307,664
Sample Size	N/A	\$ 307,664
Findings	N/A	\$ 307,664

Effect: The potential loss of federal funding for salaries and benefits charged to federal programs without proper supporting records (time sheets and/or certifications).

Cause: Multi-funded time cards were not prepared during the 2010/2011 fiscal year. The District has begun implementation of the multi-funded time cards for the 2011/2012 fiscal year. Semi-Annual Certifications were not prepared during the 2010/2011 fiscal year.

Recommendation: We recommend that all positions charged against a federal categorical aid program be required to submit the required time sheets each month reflecting their time spent on the federal program or to certify on a semi-annual basis that their time is spent exclusively on the program being charged.

Current Status: Implemented.

Jeanette L. Garcia,
CPA

Board of Trustees
Southern Kern Unified School District
Rosamond, California

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Kern Unified School District, for the year ended June 30, 2012, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent non-material conditions noted by the audit that we consider important enough to bring to your attention. We previously reported on the District's internal control over financial reporting in our report dated December 14, 2012. The Findings and Recommendations Section of the audit report dated December 14, 2012, contains certain reportable conditions in the District's internal control over financial reporting. This letter does not affect our report dated December 14, 2012, on the financial statements of Southern Kern Unified School District.

Personnel/Payroll – 30000

It appears that there is a segregation of duties problem in the area of personnel and payroll. The payroll clerk has the ability to enter salary information as well as process payroll. These two duties should be mutually exclusive. The District should prohibit the payroll clerk from having the ability to enter salary information.

Rosamond Elementary ASB – 30000

The ASB bookkeeper is an authorized signer on the ASB bank account. Segregation of duties is difficult to accomplish for an ASB. However, at a minimum, the ASB bookkeeper should not be a signer on the accounts.

We will review the status of these recommendations during our next audit engagement. We have discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the management, Board of Trustees, others within the District, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jeanette L. Garcia + Associates

December 14, 2012

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