VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2013

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2013

Table of Contents

FINANCIAL SECTION

Page

Independent Auditors' Report 1
Management's Discussion and Analysis 3
Basic Financial Statements:
    Government-wide Financial Statements:
        Statement of Net Position 11
        Statement of Activities 12
    Governmental Funds Financial Statements:
        Balance Sheet 13
        Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 14
        Statement of Revenues, Expenditures, and Changes in Fund Balances 15
        Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 16
    Fiduciary Funds Financial Statement:
        Statement of Net Position 17
Notes to Financial Statements 18

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund 41
Schedule of Funding Progress 42
Notes to the Required Supplementary Information 43

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure 44
Schedule of Average Daily Attendance 45
Schedule of Instructional Time 46
Schedule of Financial Trends and Analysis 47
Schedule of Expenditures of Federal Awards 48
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements 49
Schedule of Charter Schools 50
Note to the Supplementary Information 51

Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards 52
Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance 54
Independent Auditors' Report on State Compliance 56

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:
Summary of Auditors' Results 58
Current Year Audit Findings and Questioned Costs 59
Summary Schedule of Prior Audit Findings 63
Management Letter 68

Financial Section

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NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Victor Valley Union High School District
Victorville, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victor Valley Union High School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Victor Valley Union High School District, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 41, and 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Victor Valley Union High School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 16, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

December 16, 2013

This discussion and analysis of Victor Valley Union High School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined from last year, as the net position decreased by $0.5 million to $173.3 million.
- Total governmental revenues were $99.4 million, about $0.5 million less than expenses.
- The total cost of basic programs was $99.9 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was $80.0 million.
- The District's combined fund balances decreased by $63.4 million, primarily due to construction costs for Measure "V" and repayments of long term debt.
- Average daily attendance (grades 7-12) decreased by 329, or 3.4%.

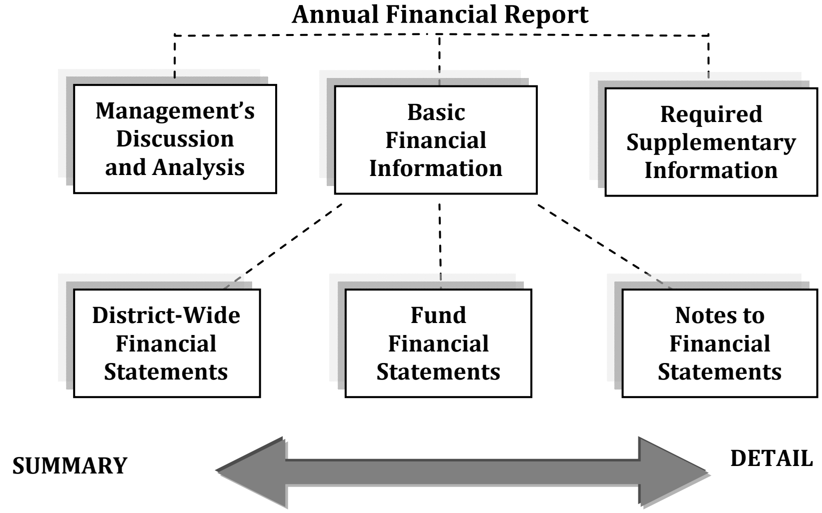
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Victor Valley Union High School District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has two kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

- ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2013, than it was the year before – decreasing 0.3% to $173.3 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase
	2013	**2012 ***	**(Decrease)**
Current assets	$ 62,608,681	$ 104,415,069	$ (41,806,388)
Noncurrent assets	4,607,249	3,038,554	1,568,695
Capital assets	302,564,520	277,236,705	25,327,815
Total assets	369,780,450	384,690,328	(14,909,878)
Current liabilities	32,066,533	11,429,630	20,636,903
Long-term debt outstanding	164,399,831	199,491,165	(35,091,334)
Total liabilities	196,466,364	210,920,795	(14,454,431)
Net position			
Net investment in capital assets	175,981,257	152,803,699	23,177,558
Restricted	20,644,755	43,580,489	(22,935,734)
Unrestricted	(23,311,926)	(22,614,655)	(697,271)
Total net position	$ 173,314,086	$ 173,769,533	$ (455,447)

* As restated

Changes in net position, governmental activities. The District's total revenues increased 2.7% to $99.4 million (See Table A-2). The increase is due primarily to an increase in property taxes.

The total cost of all programs and services decreased 3.0% to $99.9 million. The District's expenses are predominantly related to educating and caring for students, 70.4%. The purely administrative activities of the District accounted for just 7.1% of total costs. A significant contributor to the decrease in costs was a decrease in instructional service costs as well as food service costs.

Table A-2

	Governmental Activities		Variance Increase
	2013	**2012**	**(Decrease)**
Total Revenues	$ 99,394,559	$ 96,805,396	$ 2,589,163
Total Expenses	99,850,006	102,972,008	(3,122,002)
Increase (decrease) in net position	$ (455,447)	$ (6,166,612)	$ 5,711,165

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $31.4 million, which is below last year's ending fund balance of $94.8 million. The primary cause of the decreased fund balance is due to construction costs as well as the payoff of the bond anticipation notes.

General Fund Budgetary Highlights

Over the course of the year, the District revised the original budget which was adopted in the prior year several times throughout the current year, as new information became available. The major budget amendments fall into these categories:

- Revenues – increased by $11.2 million primarily to reflect federal and state actions.
- Salaries and benefits costs – decreased $0.8 million due to staffing changes.
- Other non-personnel expenses – increased $8.7 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about $1.0 million, the actual results for the year show that revenues exceeded expenditures by roughly $1.4 million. Actual revenues were $5.1 million less than anticipated, but expenditures were $7.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2013 that will be carried over into the 2013-14 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012-13 the District had invested $28.9 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $3.5 million.

Table A-3: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2013	**2012***	
Land	$ 10,687,177	$ 10,687,177	$ -
Improvement of sites	8,240,075	8,575,264	(335,189)
Buildings	50,709,537	43,739,694	6,969,843
Equipment	7,401,424	5,122,273	2,279,151
Construction in progress	225,526,307	209,112,297	16,414,010
Total	$ 302,564,520	$ 277,236,705	$ 25,327,815

* As restated

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt
At year-end the District had $164.4 million in general obligation bonds, certificates of participation, and employment benefits – a decrease of 17.6% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2013	**2012**	**Increase (Decrease)**
General obligation bonds	$ 150,173,585	$ 111,585,077	$ 38,588,508
Bond anticipation notes	-	74,500,000	(74,500,000)
Certificates of participation	5,965,592	6,803,791	(838,199)
Compensated absences	2,112,197	1,708,782	403,415
Other postemployment benefits	6,148,457	4,893,515	1,254,942
Total	$ 164,399,831	$ 199,491,165	$ (35,091,334)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview
The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line–item veto authority to reduce or eliminate non–Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by $5.6 million.

The state spending plan assumes total budget expenditures of $138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012–13. This consists of $96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as $42 billion from special funds. The budget estimates that spending from federal funds in 2013–14 will total $87.6 billion, an increase of 7.7 percent over 2012–13.

The administration's May Revision estimates of 2012–13 revenues were about $2.3 billion higher than when the 2012–13 spending plan was adopted last year. These higher revenues result in $2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K–14 education. In addition, higher expenditures in other areas contributed to the estimated 2012–13 General Fund ending balance being about $694 million lower than was assumed in the 2012–13 spending plan. Nevertheless, under the spending plan 2012–13 would end with a $254 million reserve, the first such year–end positive balance in the reserve since 2007–08.

The spending plan assumes General Fund and Education Protection Account revenues of $97.1 billion and expenditures of $96.3 billion. The resulting $817 million operating surplus combined with the $254 million positive ending balance for 2012–13 produce an estimated $1.1 billion reserve for 2013–14.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Major Spending Changes
For K–12 education, the largest 2013–14 augmentation ($2.1 billion) is for implementing the Local Control Funding Formula (LCFF) for school districts. Other major 2013–14 K–12 augmentations include $406 million in grants and loans for energy projects, an additional $250 million on a one–time basis for the Common Core State Standards initiative, $250 million on a one–time basis for a new Career Pathways program, $50 million to augment the mandate block grant, $32 million to implement the LCFF for county offices of education (COEs), and $10 million to establish the California Collaborative for Educational Excellence (CCEE) to provide low–performing school districts with academic assistance.

The budget also further pays down K–12 deferrals. Additionally, the budget includes a 1.57 percent cost–of–living adjustment (COLA) for certain K–12 categorical programs. The budget includes a slight increase to reflect 0.2 percent growth in K–12 ADA. The budget also provides a $26 million (5 percent) increase to the part–day/part–year State Preschool program to support approximately 7,100 new preschool slots.

In 2013–14, despite fewer overall resources compared to 2012–13, much less funding is designated for paying down deferrals. This frees up funds in 2013–14 that can be used for other purposes. In total, the budget includes a $2.6 billion increase in K–12 ongoing funding. Ongoing funding per student (as measured by ADA) increases from $7,590 in 2012–13 to $8,005 in 2013–14—an increase of $415 (5.5 percent).

LCFF for School Districts and Charter Schools
The budget package includes a major restructuring of the state's funding system for school districts and charter schools. The new LCFF system replaces existing funding formulas for revenue limits and most categorical programs with a weighted student funding formula. Over the course of implementation, districts will receive additional funding to reduce the same share of the gap between their existing per–pupil funding rates and their targets under the LCFF. Full implementation of the LCFF is expected to take eight years (with full implementation in 2020–21) and cost $18 billion (not accounting for future COLA costs). The *2013–14 Budget Act* provides first–year funding of $2.1 billion. This is expected to close 12 percent of each district's gap.

Deferral Paydowns
After four consecutive years of increasing the amount of deferrals for schools and community colleges—reaching a total of $10.4 billion in outstanding deferrals by the end of 2011–12—the 2012–13 budget plan provided $2.2 billion to reduce the amount of outstanding deferrals. The recently enacted budget plan makes an additional $1.8 billion in 2012–13 deferral paydowns as well as $272 million in paydowns in 2013–14. Under the budget package, $6.2 billion in outstanding deferrals remain as of the end of 2013–14.

Common Core Implementation
The budget plan provides $1.25 billion in one–time funding to schools for implementation of the CCSS. (Of this amount, the budget plan counts $1 billion towards meeting the 2012–13 minimum guarantee and $250 million towards meeting the 2013–14 guarantee.) The CCSS are nationally developed standards for math and English/Language Arts that the state adopted in 2010. Under current law, schools are required to align instruction to the CCSS beginning in 2014–15. The $1.25 billion in CCSS funding must be spent in 2013–14 or 2014–15 for professional development, instructional materials, and technology that assist schools in aligning instruction to the CCSS. Local governing boards are required in a series of public meetings to discuss and adopt a plan for spending the funds and must report how the funds were spent to the California Department of Education (CDE) by July 1, 2015.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 39

Passed by the voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five–year period, starting in 2013–14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings.

Adult Education

In an effort to improve coordination among adult education providers, the budget provides $25 million (Proposition 98 General Fund) for a new Adult Education Consortium Program. School districts and community colleges that form a regional consortium are eligible to apply for these funds.

In a related action, the budget package eliminates school districts' adult education categorical program and consolidates all associated annual funding ($635 million Proposition 98 General Fund) into the school district LCFF. The budget package, however, contains a requirement for school districts (through their adult schools) to maintain at least their 2012–13 level of state spending on adult education in 2013–14 and 2014–15.

New Career Pathways Program

The budget provides $250 million in one–time Proposition 98 funding to create a "California Career Pathways Trust." The primary purpose of the new program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K–14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum.

Special Education

The budget package makes three notable changes to special education funding. First, the package simplifies the state's approach to distributing funding to special education local plan areas (SELPAs) by delinking state and federal special education allocation formulas. A conforming change revises the "statewide target rate" used to fund new students to the updated statewide average per–pupil funding rate. Second, the budget provides $2.6 million in Proposition 98 funds to fully offset federal sequestration funding cuts for preschoolers and infants/toddlers with disabilities and provides $2.1 million in federal carryover funds to partially mitigate federal sequestration funding cuts for K–12 students with disabilities. Third, the package consolidates 11 special education categorical grants into 5 larger grants.

All of these factors were considered in preparing the Victor Valley Union High School District budget for the 2013-14 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Assistant Superintendent of Business Services at (760) 955-3201.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Statement of Net Position

June 30, 2013

ASSETS	Total Governmental Activities
Current assets:	
Cash	$ 44,202,482
Investments	1,112,041
Accounts receivable	17,200,381
Inventories	93,777
Total current assets	62,608,681
Noncurrent assets:	
Unamortized debt issuance costs	4,607,249
Total noncurrent assets	4,607,249
Capital assets:	
Non-depreciable assets	236,213,484
Depreciable assets	110,043,993
Less accumulated depreciation	(43,692,957)
Total capital assets, net of depreciation	302,564,520
Total assets	369,780,450
LIABILITIES	
Current liabilities:	
Accounts payable	14,066,533
TRANs payable	18,000,000
Total current liabilities	32,066,533
Long-term liabilities:	
Portion due or payable within one year	6,308,496
Portion due or payable after one year	158,091,335
Total long-term liabilities	164,399,831
Total liabilities	196,466,364
NET POSITION	
Net investment in capital assets	175,981,257
Restricted for:	
Capital projects	3,593,225
Debt service	10,158,756
Categorical programs	6,892,774
Unrestricted	(23,311,926)
Total net position	$ 173,314,086

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2013

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:					
Instructional Services:					
Instruction	$ 48,414,990	$ 396,542	$ 9,421,745	$ 52,381	$ (38,544,322)
Instruction-Related Services:					
Supervision of instruction	1,202,667	4,566	337,602	-	(860,499)
Instructional library, media and technology	799,670	-	887,509	-	87,839
School site administration	6,380,248	3,397	153,715	-	(6,223,136)
Pupil Support Services:					
Home-to-school transportation	3,940,301	-	1,014,440	-	(2,925,861)
Food services	4,607,353	649,957	4,109,980	-	152,584
All other pupil services	4,911,897	-	447,568	-	(4,464,329)
General Administration Services:					
Data processing services	783,366	-	1,013	-	(782,353)
Other general administration	6,302,227	35,304	1,024,371	-	(5,242,552)
Plant Services	9,084,774	1,313	16,521	-	(9,066,940)
Ancillary Services	1,023,330	-	-	-	(1,023,330)
Interest on Long-Term Debt	6,306,500	1,163,798	91,292	-	(5,051,410)
Other Outgo	2,542,979	-	-	-	(2,542,979)
Depreciation (unallocated)	3,549,704	-	-	-	(3,549,704)
Total governmental activities	$ 99,850,006	$ 2,254,877	$ 17,505,756	$ 52,381	(80,036,992)

General Revenues:	
Property taxes	18,004,691
Federal and state aid not restricted to specific purpose	57,267,052
Interest and investment earnings	351,510
Interagency revenues	3,307,857
Miscellaneous	650,435
Total general revenues	79,581,545
Change in net position	(455,447)
Net position- July 1, 2012, as originally stated	122,588,996
Adjustments for restatement	51,180,537
Net position - July 1, 2012, as restated	173,769,533
Net position - June 30, 2013	$ 173,314,086

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Balance Sheet – Governmental Funds

June 30, 2013

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 20,897,413	$ 6,274,830	$ 7,657,662	$ 9,372,577	$ 44,202,482
Investments	515	-	-	1,111,526	1,112,041
Accounts receivable	16,596,079	5,618	-	598,684	17,200,381
Due from other funds	536,847	-	-	-	536,847
Inventories	80,259	-	-	13,518	93,777
Total Assets	$ 38,111,113	$ 6,280,448	$ 7,657,662	$ 11,096,305	$ 63,145,528
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 10,133,911	$ 2,252,647	$ -	$ 864,062	$ 13,250,620
Due to other funds	-	-	-	536,847	536,847
TRANs payable	18,000,000	-	-	-	18,000,000
Total Liabilities	28,133,911	2,252,647	-	1,400,909	31,787,467
Fund Balances					
Nonspendable	155,259	-	-	13,518	168,777
Restricted	4,159,302	4,027,801	7,657,662	9,681,878	25,526,643
Assigned	210,088	-	-	-	210,088
Unassigned	5,452,553	-	-	-	5,452,553
Total Fund Balances	9,977,202	4,027,801	7,657,662	9,695,396	31,358,061
Total Liabilities and Fund Balances	$ 38,111,113	$ 6,280,448	$ 7,657,662	$ 11,096,305	$ 63,145,528

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Total fund balances - governmental funds		$ 31,358,061
Amounts reported for governmental activities in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $346,257,477, and the accumulated depreciation is ($43,692,957).		302,564,520
In governmental funds, other postemployment benefits (OPEB) costs are recognized as expenditures in the period they are paid. In the government-wide statements, OPEB costs are recognized in the period that they are incurred. The net OPEB liability at the end of the period was:		(6,148,457)
Debt issue costs are recognized as expenditures in the period they are incurred in the governmental statements. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issuance costs included on the statement of net position are:		4,607,249
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(815,913)
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
General obligation bonds	150,173,585	
Compensated absences	2,112,197	
Certificates of participation	5,965,592	
		(158,251,374)
Total net position - governmental activities		$ 173,314,086

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	$ 58,676,647	$ -	$ -	$ -	$ 58,676,647
Federal sources	5,608,912	-	-	3,899,340	9,508,252
Other state sources	11,054,944	-	97,938	310,071	11,462,953
Other local sources	6,966,147	2,876,213	7,159,056	2,745,291	19,746,707
Total Revenues	82,306,650	2,876,213	7,256,994	6,954,702	99,394,559
EXPENDITURES					
Current:					
Instruction	47,763,989	-	-	-	47,763,989
Instruction-Related Services:					
Supervision of instruction	1,161,566	-	-	-	1,161,566
Instructional library, media and technology	787,776	-	-	-	787,776
School site administration	6,267,908	-	-	-	6,267,908
Pupil Support Services:					
Home-to-school transportation	3,883,586	-	-	-	3,883,586
Food services	491	-	-	4,567,481	4,567,972
All other pupil services	4,741,489	-	-	-	4,741,489
Ancillary services	1,002,458	-	-	-	1,002,458
General Administration Services:					
Data processing services	786,103	-	-	-	786,103
Other general administration	5,402,873	25,748	-	434,285	5,862,906
Transfers of indirect costs	(192,177)	-	-	192,177	-
Plant services	9,334,736	-	-	8,753	9,343,489
Intergovernmental transfers	103,268	-	-	-	103,268
Capital Outlay	-	18,437,734	-	10,088,757	28,526,491
Debt Service:					
Principal	-	74,500,000	1,890,062	810,000	77,200,062
Interest	-	3,051,266	4,102,188	286,000	7,439,454
Issuance costs	-	2,362,739	-	-	2,362,739
Total Expenditures	81,044,066	98,377,487	5,992,250	16,387,453	201,801,256
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,262,584	(95,501,274)	1,264,744	(9,432,751)	(102,406,697)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	20,814,869	-	4,571,666	25,386,535
Interfund transfers out	-	-	-	(25,386,535)	(25,386,535)
Proceeds from long-term debt	-	36,839,953	-	-	36,839,953
Premiums on long-term debt	-	2,137,739	-	-	2,137,739
Total Other Financing Sources and Uses	-	59,792,561	-	(20,814,869)	38,977,692
Net Change in Fund Balances	1,262,584	(35,708,713)	1,264,744	(30,247,620)	(63,429,005)
Fund Balances, July 1, 2012, as originally stated	8,714,618	39,951,219	6,392,918	39,943,016	95,001,771
Adjustments for Restatement	-	(214,705)	-	-	(214,705)
Fund Balances, July 1, 2012, as restated	8,714,618	39,736,514	6,392,918	39,943,016	94,787,066
Fund Balances, June 30, 2013	$ 9,977,202	$ 4,027,801	$ 7,657,662	$ 9,695,396	$ 31,358,061

VICTOR VALLEY UNION HIGH 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, 2013

Total net change in fund balances - governmental funds			$ (63,429,005)
Amounts reported for governmental *activities* in the statement of activities are different because:			
Capital outlays are reported in 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. The difference between capital outlay expenditures and depreciation expense for the period is:			
	Expenditures for capital outlay	28,877,519	
	Depreciation expense	(3,549,704)	25,327,815
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			77,200,062
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discounts, were:			(38,977,692)
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however this is recorded as interest expense for the period. The interest expense for the period, less amounts paid was:			(1,619,919)
In the governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized over the life of the debt. Amortization of premium for the period is:			147,240
Debt issue costs are recognized as expenditures in the period they are incurred in the governmental funds. The debt issue costs are amortized over the life of the debt in the government-wide statements. Amortization of the debt issuance costs for the period is:			1,568,695
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period was:			985,714
In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*). The compensated absences earned in the current period exceeded the amount used by:			(403,415)
In governmental funds, other postemployment benefits (OPEB) costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:			(1,254,942)
Change in net position of governmental activities			$ (455,447)

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Statement of Net Position - Fiduciary Funds
June 30, 2013

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
ASSETS		
Cash	$ 469,212	$ -
Investments	-	901,339
Inventories	57,256	-
Total assets	$ 526,468	$ 901,339
LIABILITIES		
Due to student groups	$ 526,468	$ -
Due to bondholders	-	901,339
Total liabilities	$ 526,468	$ 901,339

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of Victor Valley Union High School District and its component units, legally separate organizations for which the District is financially accountable. These component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Trustees also serves as the governing board for the Victor Valley UHSD Public Financing Corporation and various CFDs. Although the board members of the Victor Valley UHSD Public Financing Corporation and the Community Facilities Districts are appointed by the District Board, the corporation and CFDs exist solely to finance the acquisition and construction of equipment and facilities for the District.

Component Unit	Included in the Reporting Entity Because:	Separate Financial Statements
Victor Valley UHSD Public Financing Corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated October 15, 1995 and June 1, 1997.	Board of Trustees composes board of Financing Corporation	Not prepared.
Community Facilities Districts (CFD): The District has entered into various agreements with developers to establish CFDs. The purpose of the agreements is to provide for the collection of special taxes to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs.	Board of Trustees composes board of CFD	Not prepared.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements
The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements
The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Major Governmental Funds
The District maintains the following major governmental funds:

General Fund: This 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. The District also maintains an Adult Education Fund and a Deferred Maintenance Fund. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Adult Education Fund and the Deferred Maintenance Fund do not currently meet the definition of special revenue funds as they are no longer primarily composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds and bond anticipation notes.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds
The District maintains the following non-major governmental funds:

Special Revenue Funds:

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Capital Projects Funds:

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

State School Building Lease Purchase Fund: This fund is used to account for state apportionments provided for construction and modernization of school facilities

County School Facilities Fund: This fund is used to account for state apportionments provided under the SB50 School Facilities Program for construction and modernization of school facilities.

Special Reserve Fund for Capital Outlay Projects: This fund is used to accumulate resources for the purpose of capital outlay projects for the District.

Capital Projects Fund for Blended Component Units: This fund is used to account for the activity of Community Facilities District No. 2003-1.

Debt Service Funds:

Debt Service Fund: This fund is used to account for repayment of certificates of participation.

Fiduciary Funds
Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts that are considered blended component units of the District.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements
The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

C. Budgets and Budgetary Accounting
Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund in the required supplementary information section.

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.

D. 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 encumbrances are liquidated as of June 30.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position

1. Deposits and Investments
The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments". Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

2. Cash and Cash Equivalents
The District considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

3. Property Tax Calendar
The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

4. Inventories and Prepaid Items
Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position (continued)

6. Compensated Absences
The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Fund Balances
The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

F. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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 during the reported period. Actual results could differ from those estimates.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements
During the 2012-13 fiscal year, the following GASB Pronouncements became effective:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*: The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

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

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

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2013 are reported at fair value and consisted of the following:

	Rating	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:			
Cash in County Treasury		$ 44,113,905	$ -
Deposits:			
Cash on hand and in banks		295	469,212
Cash in revolving fund		75,000	
Cash with fiscal agent		13,282	-
Total Deposits		88,577	469,212
Total Cash		$ 44,202,482	$ 469,212
Investments:			
US Bank - Money Market	N/A	$ 1,112,041	$ 901,339

Investment security ratings reported as of June 30, 2013 are defined by Standard and Poors.

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2013, $176,740 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

Maturities of investments held at June 30, 2013 consisted of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank - Money Market	$ 2,013,380	$ 2,013,380	$ -

Investments - Credit Risk
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2013, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2013, the District had the following investments that represent more than five percent of the District's net investments.

US Bank - Money Market	100%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Totals
Federal Government:				
Categorical aid programs	$ 1,116,249	$ -	$ 525,787	$ 1,642,036
State Government:				
Revenue limit	11,362,223	-	-	11,362,223
Lottery	773,955	-	-	773,955
Special education	1,182,491	-	-	1,182,491
Categorical aid programs	1,421,314	-	44,791	1,466,105
Local:				
Interest	11,040	5,618	28,106	44,764
Interagency	675,341	-	-	675,341
Miscellaneous	53,466	-	-	53,466
Total	$ 16,596,079	$ 5,618	$ 598,684	$ 17,200,381

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2013 consisted of the following:

Cafeteria Fund due to General Fund for indirect cost payment	$ 192,177
Cafeteria Fund due to the General Fund for health benefits and payroll taxes reimbursement	334,734
Special Reserve Fund for Capital Outlay Projects due to General Fund for redevelopment taxes to correct fund	9,936
	$ 536,847

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2013 consisted of the following:

County School Facilities Fund transfer to Building Fund to reimburse monies spent in Building Fund for State funded projects	$ 7,669,162
Capital Facilities Fund transfer to Debt Service Fund for developer fee revenues for COP debt payment	4,571,666
Debt Service Fund transfer to Building Fund for BAN payments	2,145,707
Special Reserve Fund for Capital Outlay Projects transfer to Building Fund for BAN payments	11,000,000
	$ 25,386,535

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy
During the 2010-11 fiscal year, pursuant to GASB Statement No.54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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

At June 30, 2013, fund balances of the District's governmental funds are classified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	$ 75,000	$ -	$ -	$ -	$ 75,000
Stores inventories	80,259	-	-	13,518	93,777
Total Nonspendable	155,259	-	-	13,518	168,777
Restricted:					
Categorical programs	4,159,302	-	-	-	4,159,302
Food Service	-	-	-	2,719,954	2,719,954
Capital projects	-	4,027,801	-	4,460,830	8,488,631
Debt service	-	-	7,657,662	2,501,094	10,158,756
Total Restricted	4,159,302	4,027,801	7,657,662	9,681,878	25,526,643
Assigned:					
Adult education program	69,107	-	-	-	69,107
Deferred maintenance program	140,981	-	-	-	140,981
Total Assigned	210,088	-	-	-	210,088
Unassigned:					
Reserve for economic uncertainties	5,334,217	-	-	-	5,334,217
Remaining unassigned balances	118,336		-	-	118,336
Total Unassigned	5,452,553	-	-	-	5,452,553
Total	$ 9,977,202	$ 4,027,801	$ 7,657,662	$ 9,695,396	$ 31,358,061

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013 was as follows:

	Original Balance, July 1, 2012	Adjustments for Restatements	Restated Balance, July 1, 2012	Additions	Retirements	Balance, June 30, 2013
Capital assets not being depreciated:						
Land	$ 10,687,177	$ -	$ 10,687,177	$ -	$ -	$ 10,687,177
Construction in progress	157,717,055	51,395,242	209,112,297	25,260,057	8,846,047	225,526,307
Total capital assets not being depreciated	168,404,232	51,395,242	219,799,474	25,260,057	8,846,047	236,213,484
Capital assets being depreciated:						
Improvement of sites	14,686,480	-	14,686,480	340,529	-	15,027,009
Buildings	66,274,606	-	66,274,606	8,846,047	-	75,120,653
Equipment	16,619,398	-	16,619,398	3,276,933	-	19,896,331
Total capital assets being depreciated	97,580,484	-	97,580,484	12,463,509	-	110,043,993
Accumulated depreciation for:						
Improvement of sites	(6,111,216)	-	(6,111,216)	(675,718)	-	(6,786,934)
Buildings	(22,534,912)	-	(22,534,912)	(1,876,204)	-	(24,411,116)
Equipment	(11,497,125)	-	(11,497,125)	(997,782)	-	(12,494,907)
Total accumulated depreciation	(40,143,253)	-	(40,143,253)	(3,549,704)	-	(43,692,957)
Total capital assets being depreciated, net	57,437,231	-	57,437,231	8,913,805	-	66,351,036
Governmental activity capital assets, net	$ 225,841,463	$ 51,395,242	$ 277,236,705	$ 34,173,862	$ 8,846,047	$ 302,564,520

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2013 were as follows:

	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	$ 85,120,882	$ 36,839,953	$ 1,890,062	$ 120,070,773	$ 2,632,254
Accreted Interest	23,845,305	3,844,857	2,224,938	25,465,224	2,627,746
Unamortized Issuance Premium	2,618,890	2,137,739	119,041	4,637,588	175,297
Sub-total General Obligation Bonds	111,585,077	42,822,549	4,234,041	150,173,585	5,435,297
Certificates of Participation:					
Principal Payments	6,550,000	-	810,000	5,740,000	845,000
Unamortized Issuance Premium	253,791	-	28,199	225,592	28,199
Sub-total Certificates of Participation	6,803,791	-	838,199	5,965,592	873,199
Bond Anticipation Notes	74,500,000	-	74,500,000	-	-
Compensated Absences	1,708,782	403,415	-	2,112,197	-
Postemployment Benefits	4,893,515	1,254,942	-	6,148,457	-
Totals	$ 199,491,165	$ 44,480,906	$ 79,572,240	$ 164,399,831	$ 6,308,496

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments are made by the Debt Service Fund. Accumulated vacation will be paid for by the fund for which the employee worked.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

1999 Refunding

On April 7, 1999, the District issued $30,158,731 of Series A, 1999 Refunding General Obligation Bonds. The bonds were originally authorized at an election of the registered voters of the District held on November 8, 1994, at which more than two-thirds of the voters authorized the issuance and sale of general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

Measure V

On November 4, 2008, District voters approved by a 67% yes vote, Measure V, which authorizes the District to issue up to $500 million of general obligation bonds. The bonds will be used to upgrade classrooms, replace portables, construct new vocational/career tech classrooms and build a new high school in Adelanto.

A summary of all bonds issued and outstanding is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013
1999, Series A	4/7/1999	8/1/2020	4.6-5.1%	$ 30,158,731	$ 15,261,134	$ -	$ 1,890,062	$ 13,371,072
2008, Series 09	10/7/2009	8/1/2028	1.75-5.77%	69,999,600	69,859,748	-	-	69,859,748
2013, Series B	2/26/2013	8/1/2052	5.47-12.00%	36,839,953	-	36,839,953	-	36,839,953
					$ 85,120,882	$ 36,839,953	$ 1,890,062	$ 120,070,773
			Accreted Interest:					
				1999, Series A	$ 17,466,725	$ 1,889,807	$ 2,224,938	$ 17,131,594
				2008, Series 09	6,378,580	1,955,050	-	8,333,630
				2013, Series B	-	-	-	-
					$ 23,845,305	$ 3,844,857	$ 2,224,938	$ 25,465,224

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2013 are as follows:

Fiscal Year	Principal	Interest	Total
2013-2014	$ 2,632,254	$ 4,419,048	$ 7,051,302
2014-2015	2,776,020	4,771,929	7,547,949
2015-2016	2,823,291	5,324,155	8,147,446
2016-2017	2,828,951	4,823,831	7,652,782
2017-2018	3,022,285	4,913,945	7,936,230
2018-2023	10,268,643	23,706,699	33,975,342
2023-2028	8,090,649	16,010,250	24,100,899
2028-2033	25,754,948	13,312,387	39,067,335
2033-2038	31,021,265	21,575,735	52,597,000
2038-2043	11,046,754	39,928,246	50,975,000
2043-2048	10,408,645	55,426,355	65,835,000
2048-2053	9,397,068	75,627,932	85,025,000
Total	$ 120,070,773	$ 269,840,512	$ 389,911,285

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. General Obligation Bond Anticipation Notes

On September 1, 2010, the District issued General Obligation Bond Anticipation Notes in the amount of $74,500,000. The Notes are payable from the proceeds of general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held on November 4, 2008. The Notes are being issued to finance costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization. The notes bear an interest rate of 2.259% and were scheduled to mature in two phases, with the first payment of $27 million due in December 2012 and the final payment of $47.5 million due in September 2014. The District fully repaid the bond anticipation notes in 2012-13.

C. Certificates of Participation

On September 29, 2005 the District issued $10,705,000 certificates of participation pursuant to a lease agreement with the Victor Valley Union High School District Financing Corporation. The proceeds of the certificates were used primarily to refund the entire outstanding principal of the certificates that were originally issued on October 6, 1995 (the 1995 certificates) and on May 29, 1997 (the 1997 certificates). The refunding certificates were issued as $4,155,000 Serial Certificates with stated interest rates of 4.00% and maturing between November 15, 2007 and 2011 and Term Certificates of $2,530,000, $2,880,000, and $1,140,000, having yields of 3.65%, 3.96%, and 4.14%, and maturing November 15, 2014, 2017, and 2021, respectively. At June 30, 2013 the principal balance outstanding was $5,740,000, in addition to $225,592 of unamortized issuance premium.

The annual requirements to amortize certificates of participation are as follows:

Fisal Year	Principal	Interest	Total
2013-2014	$ 845,000	$ 252,900	$ 1,097,900
2014-2015	875,000	218,500	1,093,500
2015-2016	910,000	178,250	1,088,250
2016-2017	960,000	131,750	1,091,750
2017-2018	1,010,000	82,250	1,092,250
2018-2022	1,140,000	136,000	1,276,000
Total	$ 5,740,000	$ 999,650	$ 6,739,650

D. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility District, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities District according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $5,915,000 as of June 30, 2013, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

The Victor Valley Union High School District participates in joint powers agreements with the Protected Insurance Programs for Schools (PIPS) and Southern California Regional Liability Excess Fund (ReLiEF). The relationships between the District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provides property and liability insurance coverage and worker's compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed audited financial information for the year ended June 30, 2012 is as follows:

	ReLiEF	PIPS
Assets	$ 49,517,919	$ 120,376,363
Liabilities	21,283,297	97,382,754
Net Assets	$ 28,234,622	$ 22,993,609
Revenues	$ 14,440,194	$ 32,774,849
Expenses	8,376,201	33,820,261
Operating Income (Loss)	6,063,993	(1,045,412)
Non-Operating Income	686,116	1,280,131
Change in Net Assets	$ 6,750,109	$ 234,719

NOTE 9 – OPERATING LEASES

The District has entered into lease agreements for copiers throughout the District. The agreements have a 60-month lease term, beginning with 2013-14, with no bargain purchase option. Because there is no bargain purchase option, the District reports the lease payments as operating leases. The District also pays monthly copy and print charges in addition to the lease amounts. Lease payments to be made under these new agreements for the next five years are as follows:

2013-2014	$ 23,071
2014-2015	23,071
2015-2016	23,072
2016-2017	23,071
2017-2018	23,071
Total	$ 115,356

NOTE 10 – RISK MANAGEMENT

Property and Liability
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2013, the District participated in the ReLiEF public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation
For fiscal year 2012-13, the District participated in the PIPS public entity risk pool for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits
The District has contracted with Anthem Blue Cross, Blue Shield and Kaiser Permanente to provide employee medical and surgical benefits, and Delta Dental for dental benefits. Additional vision benefits are provided by M.E.S. and basic life insurance benefits are provided through Johnson Rooney public.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A. State and Federal 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. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments
At June 30, 2013, the District had commitments with respect to unfinished capital projects of approximately $8.0 million to be paid from a combination of State and local funds.

C. Litigation
The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2013.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

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 comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy
Active plan members are required to contribute 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 for fiscal year 2012-13 was 11.417%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2012-13	$ 1,626,451	100%
2011-12	$ 1,678,628	100%
2010-11	$ 1,703,447	100%

State Teachers' Retirement System (STRS)

Plan Description
The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy
Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2012-13 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 last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2012-13	$ 2,609,879	100%
2011-12	$ 2,757,987	100%
2010-11	$ 2,906,066	100%

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Accumulation Program for Part Time and Limited Service Employees (APPLE)

Plan Description
The Accumulation Program for Part-Time and Limited Service Employees (APPLE) is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by the APPLE Board of Trustees.

Funding Policy
Contributions of 3.75% of covered compensation of eligible employees are made by both the employer and the employee. Total contributions, employer and employee combined (7.5%), were made in the amount of $47,557 during the fiscal year. The total amount of covered compensation was $0.6 million. Total contributions made are 100% of the amount of contributions required for fiscal year 2012-13.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately $1.3 million to STRS (4.267% of salaries subject to STRS in 2012-13).

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

Victor Valley Union High School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information
Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	88
Active plan members*	789
Total	877

** As of March 1, 2012 actuarial valuation*

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)
Following is a description of the current retiree benefit plan:

	Certificated	Classified	Management
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	5 years plus one year per 2 years of service beyond 10, but not beyond Medicare age.	5 years plus one year per 2 years of service beyond 10, but not beyond Medicare age.	10 or more years of service: to 65 20 or more years of service: to 70
Required Service	10 years	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	None	None	None

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2012-13, the District contributed $1,455,572.

Annual OPEB Cost and Net OPEB Obligation
The District's annual OPEB cost 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 unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$	2,682,587
Interest on net OPEB obligation		244,675
Adjustment to annual required contribution		(216,748)
Annual OPEB cost		2,710,514
Contributions made		(1,455,572)
Increase in net OPEB obligation		1,254,942
Net OPEB obligation - July 1, 2012		4,893,515
Net OPEB obligation - June 30, 2013	$	6,148,457

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	$ 1,973,653	60.4%	$ 3,523,548
2012	$ 2,702,696	49.3%	$ 4,893,515
2013	$ 2,710,514	53.7%	$ 6,148,457

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans
As of March 1, 2012, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $18,658,513, and the unfunded actuarial accrued liability (UAAL) was $18,658,513.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Additional information as of the latest actuarial valuation follows:

Valuation date	March 1, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (open)
Asset valuation	N/A
Actuarial assumptions:	
Investment rate of return	5%
Inflation	3%
Healthcare cost trend rate	4%

NOTE 14 – TAX REVENUE ANTICIPATION NOTES

The District issued $18,000,000 of Tax Revenue Anticipation Notes dated February 13, 2013. The notes matured on October 1, 2013, had an interest rate of 2.0% and were priced to yield 0.55% interest. The notes were sold by the District to supplement its cash flow.

NOTE 15 – FUTURE GASB PRONOUNCEMENTS

The following statements issued by the Governmental Accounting Standards Board (GASB) will become effective in future years and are expected to have a significant impact on the District's financial reporting:

A. Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

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

This Statement will become effective in 2013-14.

B. Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

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

NOTE 15 – FUTURE GASB PRONOUNCEMENTS (continued)

B. Statement No. 68 (continued)

Cost-Sharing Employers
In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

This Statement will become effective in 2014-15.

NOTE 16 - ADJUSTMENTS FOR RESTATEMENT

The beginning net position on the Statement of Activities has been restated by $51,180,537 to account for $51,395,242 in construction in progress that was not included in the assets listing as well as by ($214,705) to remove expense which belong to the prior period.

Additionally, the beginning fund balance of the Building Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance has been reduced by ($214,705) to remove expenditures from the prior period.

Required Supplementary Information

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VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual*	Pos (Neg)
Revenues				
Revenue Limit Sources	$ 54,042,102	$ 59,761,835	$ 58,676,647	$ (1,085,188)
Federal	5,515,520	8,392,253	5,608,912	(2,783,341)
Other State	8,757,313	11,106,492	10,718,768	(387,724)
Other Local	7,559,776	7,799,942	6,964,445	(835,497)
Total Revenues	75,874,711	87,060,522	81,968,772	(5,091,750)
Expenditures				
Current:				
Certificated Salaries	34,233,353	33,916,755	32,893,849	1,022,906
Classified Salaries	14,057,413	13,874,275	13,745,640	128,635
Employee Benefits	22,127,743	21,841,359	21,650,316	191,043
Books and Supplies	2,951,069	5,116,558	2,637,819	2,478,739
Services and Other Operating Expenditures	6,923,551	11,427,463	9,703,499	1,723,964
Transfers of Indirect Costs	(221,560)	1,664,564	(192,177)	1,856,741
Capital Outlay	30,126	72,674	63,036	9,638
Intergovernmental Services	-	103,307	103,268	39
Total Expenditures	80,101,695	88,016,955	80,605,250	7,411,705
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,226,984)	(956,433)	1,363,522	2,319,955
Other Financing Sources and Uses				
All other financing sources	-	1,886,124	-	(1,886,124)
Total Other Financing Sources and Uses	-	1,886,124	-	(1,886,124)
Net Change in Fund Balance	(4,226,984)	929,691	1,363,522	433,831
Fund Balances, July 1, 2012	9,126,864	8,127,589	8,403,592	276,003
Fund Balances, June 30, 2013	$ 4,899,880	$ 9,057,280	$ 9,767,114	$ 709,834

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education and Deferred Maintenance Funds, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
September 1, 2007	$ -	$ 15,681,537	$ 15,681,537	0.0%	$ 46,109,593	34%
September 1, 2009	-	13,954,604	13,954,604	0.0%	45,719,596	31%
March 1, 2012	-	18,658,513	18,658,513	0.0%	41,985,287	44%

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2013, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules.

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Supplementary Information

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The Victor Valley Union High School District was established as a high school district in 1915. The District encompasses approximately 536 square miles in the northwest portion of San Bernardino County, which includes the incorporated cities of Victorville and Adelanto. There were no changes to the District's boundaries during the year. The District provides instructional services in grades 7-12 at three high schools, three junior high schools, and one alternative education center.

GOVERNING BOARD

Member	Office	Term Expires
Dr. Duneen DeBruhl	President	November, 2014
Barbara Dew	Vice-President	November, 2016
Tim Hauk	Clerk	November, 2014
Evelyn Glasper	Member	November, 2014
Rita Jackson	Member	November, 2014

DISTRICT ADMINISTRATORS

Mr. Elvin Momon,
Superintendent

Mr. Ruben J. Rojas, [1]
Assistant Superintendent, Business Services

Dr. Ron Williams,
Assistant Superintendent, Educational Services

Mr. Steve Desist, [2]
Assistant Superintendent, Human Resources

[1] Jean Aldrete was appointed Assistant Superintendent, Business Services on December 12, 2013.
[2] Raymond Johnson was appointed Assistant Superintendent, Human Resources on November 21, 2013 and started his position December 9, 2013.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2013

	Second Period Report (Certificate No. 77631E04)	Annual Period Report (Certificate No. 3F10E9B3)
Elementary:		
Grades 7 and 8, regular classes	2,337	2,324
Home and hospital	1	1
Special education	162	162
Total Elementary	2,500	2,487
Secondary:		
Grades 9 through 12, regular classes	6,039	5,938
Continuation education	246	228
Home and hospital	19	18
Special education	550	541
Total Secondary	6,854	6,725
Total Average Daily Attendance	9,354	9,212

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2013

	1982-83 Minutes		1986-87 Minutes		2012-13	Number of Days	
Grade Level	Actual	Reduced*	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status
Grade 7	62,480	60,744	54,000	52,500	63,649	174**	Complied
Grade 8	62,480	60,744	54,000	52,500	63,649	174**	Complied
Grade 9	62,304	60,573	64,800	63,000	63,637	174**	Complied
Grade 10	62,304	60,573	64,800	63,000	63,637	174**	Complied
Grade 11	62,304	60,573	64,800	63,000	63,637	174**	Complied
Grade 12	62,304	60,573	64,800	63,000	63,637	174**	Complied

* Amounts reduced as permitted by Education Code Section 46201.2(a).
** A one-day emergency waiver was granted District-wide. Due to this, only 174 days were offered as operational days.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2013

General Fund	(Budget) 2014 [3]	2013 [4]	2012	2011
Revenues and other financing sources	$ 79,434,767	$ 81,968,772	$ 83,213,518	$ 85,888,914
Expenditures	80,246,490	80,605,250	85,952,040	91,261,125
Total outgo	80,246,490	80,605,250	85,952,040	91,261,125
Change in fund balance (deficit)	(811,723)	1,363,522	(2,738,522)	(5,372,211)
Ending fund balance	$ 9,283,268	$ 9,767,114	$ 8,403,592	$ 11,142,114
Available reserves [1]	$ 4,366,933	$ 5,452,553	$ 4,537,719	$ 5,180,094
Available reserves as a percentage of total outgo	5.4%	6.8%	5.3%	5.7%
Total long-term debt	$ 158,091,335	$ 164,399,831	$ 199,491,165	$ 199,256,717
Average daily attendance at P-2 [2]	9,285	9,354	9,683	10,025

The General Fund ending fund balance has decreased by $1.4 million over the past two years. The fiscal year 2013-14 adopted budget projects a decrease of $811,723. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has decreased $34.9 million over the past two years.

Average daily attendance (ADA) has decreased by 671 over the past two years. The District is projecting an additional decline of 69 ADA in the next year.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] Excludes Adult Education and Charter School ADA.

[3] Revised Budget September 2013.

[4] The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education and Deferred Maintenance Funds, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	$ 800,846	
National School Lunch Program	10.555	13523	2,864,418	
USDA Donated Foods	10.555	N/A	234,076	
Subtotal Child Nutrition Cluster				$ 3,899,340
Total U.S. Department of Agriculture				3,899,340
U.S. Department of Defense:				
Reserve Officer Training Corps	12.000	N/A		48,874
Total U.S. Department of Defense				48,874
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,622,935
Title II, Part A, Teacher Quality Local	84.367	14341		200,705
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681		102,326
English Language Acquisition Cluster:				
Title III, Immigrant Education Program	84.365	15146	2,955	
Title III, Limited English Proficiency	84.365	14346	126,376	
Subtotal English Language Acquisiton Cluster				129,331
Carl Perkins Act - Secondary	84.048	14894		180,540
Safe and Supportive Schools Programmatic Intervention	84.184	15164		151,528
Individuals with Disabilities Education Act (IDEA):				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379		2,185,842
Passed through Victor Valley Community College District:				
Gear Up Grant	84.334	N/A		93,305
Total U.S. Department of Education				5,666,512
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medi-Cal Billing Option	93.778	10013		200,758
Total U.S. Department of Health & Human Services				200,758
Total Expenditures of Federal Awards				$ 9,815,484

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

For the Fiscal Year Ended June 30, 2013

	General Fund*	Building Fund	Capital Projects Fund for Blended Component Units
June 30, 2013, annual financial and budget report fund balance	$ 10,094,990	$ 8,908,690	$ 1,101,455
Adjustments and reclassifications:			
Increase (decrease) in fund balances:			
Accounts receivable overstated	(327,876)	-	-
Cash with Fiscal Agent overstated	-	(2,628,242)	-
Accounts payable understated	-	(2,252,647)	-
Cash in banks (overstated) understated	-	-	36,150
Net adjustments and reclassifications	(327,876)	(4,880,889)	36,150
June 30, 2013, audited financial statement fund balance	$ 9,767,114	$ 4,027,801	$ 1,137,605

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education and Deferred Maintenance Funds, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2013

Charter School	Inlcusion in Financial Statements
Excelsior Education Center	Not included
Options for Youth - Victor Valley	Not included

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code Section 46201.2(a).

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the school district and displays information for each charter school on whether or not the charter school is included in the school district audit.

Other Independent Auditors' Reports

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

Board of Trustees
Victor Valley Union High School District
Victorville, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victor Valley Union High School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Victor Valley Union High School District's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Victor Valley Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Victor Valley Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Victor Valley Union High School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2013-1 and 2013-2 to be material weaknesses.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Victor Valley Union High 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 findings and questioned costs as Findings 2013-3 and 2013-4.

Victor Valley Union High School District's Responses to Findings
Victor Valley Union High School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Victor Valley Union High School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro & Nigro, PC

December 16, 2013

NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Victor Valley Union High School District
Victorville, California

Report on Compliance for Each Major Federal Program

We have audited Victor Valley Union High School District's 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 Victor Valley Union High School District's major federal programs for the year ended June 30, 2013. Victor Valley Union High School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Victor Valley Union High School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Victor Valley Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Victor Valley Union High School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Victor Valley Union High School District complied, in all material respects, with the types of 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, 2013.

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Report on Internal Control Over Compliance
Management of Victor Valley Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Victor Valley Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

December 16, 2013

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Victor Valley Union High School District
Victorville, California

Report on Compliance for State Programs
We have audited Victor Valley Union High School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13,* published by the Education Audit Appeals Panel, for the year ended June 30, 2013. Victor Valley Union High School District's state programs are identified below.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Victor Valley Union High School District's State programs based on our audit of the types of compliance requirements referred to below. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Victor Valley Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each State program. However, our audit does not provide a legal determination of Victor Valley Union High School District's compliance.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Not applicable
Independent Study	23	No (see below)
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable

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Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Class Size Reduction:		
General Requirements	7	Not applicable
Option One	3	Not applicable
Option Two	4	Not applicable
Districts 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	1	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 perform testing for independent study because the ADA was under the level that requires testing.

Opinion on Compliance with State Programs

In our opinion, Victor Valley Union High School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2013. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13,* and which is described in the accompanying schedule of findings and questioned costs as Finding 2013-4.

Victor Valley Union High School District's response to the state compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Victor Valley Union High School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

December 16, 2013

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

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

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2013-1: Capital Asset Accounting (20000)

Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP), Education Code Section 35168, and District Board Policy require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District.

The District was unable to clearly identify the capital assets recorded during the 2012-13 fiscal year. The District does have records to monitor costs by project; however, the District did not maintain a detailed inventory of capital assets to include improvements, buildings and equipment. We were able to determine that the expenditures were for proper capital costs, but not the nature of the project or the amount of the depreciable assets in the current year. The construction in progress, which accounts for current construction projects, is not being properly reconciled at the completion of projects which should begin to be depreciated at project completion.

The District's depreciation expense may be understated if the costs were for projects that were completed during the year and not added to the depreciation schedule; however, we believe the understatement of depreciation expense would be immaterial. For the current year, depreciation costs were estimated based on prior year information.

Furthermore, the District does not have records to monitor disposal of capital assets made during the year.

Recommendation: The District needs to update its capital assets listing to include a detailed and itemized listing of construction projects as of June 30, 2013. Then, update it as projects are completed and moved into the completed buildings or site improvements categories or as new costs are incurred. An employee needs to be assigned the task of tracking all future acquisitions and disposals. It may be beneficial to consider hiring a firm to a conduct a full inventory of capital assets during 2013-14.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2013-1: Capital Asset Accounting (20000) (continued)

District Response: With the completion of construction projects during the first quarter of the 2013/14 fiscal year an itemized listing and the categorization of buildings and site improvements will be compiled and recorded. The District will consider outsourcing the inventory of all assets. This would be best served once Adelanto High School and University Preparatory have been moved into permanent facilities in the 2014/15 fiscal year. As assets are approved for surplus and then disposed of, the asset system is being updated.

Finding 2013-2: Unrecorded Liabilities (30000)

In reviewing the accounts payable balance in the various funds of the District, we noted that there was a zero balance in Fund 21 for accounts payable. During our review of warrants disbursed during the 2013-14 fiscal year, we noted that 21 of the 52 warrants reviewed for Fund 21 were for expenditures incurred during the 2012-13 fiscal year that were not properly accrued as accounts payable. This resulted in an understatement of accounts payable in Fund 21 of nearly $2.3 million.

Furthermore, we also noted disbursements paid during 2012-13 that were for expenditures for 2011-12 that resulted in a restatement of $214,705. Audit adjustments have been recorded to correct these discrepancies.

Recommendation: We recommend that management provide additional training to accounting staff in the process of identifying accruals. Additionally, we recommend that management review open purchase orders during the closing process to identify accruals that could be missed, as well as contacting vendors for final billings prior to the closing of each fiscal year.

District Response: Staff assignments will be evaluated and reassigned as needed. Further training will be required of all staff.

Finding 2013-3: Contract/ Bid Package Testing (30000)

In accordance with Public Contract Code Section 22036, public agencies that adopt and contract under the Uniform Public Construction Cost Accounting Act (UCCA) shall be required to mail, e-mail or fax a notice to the appropriate construction trade journals, of all informal and formal construction contracts being bid within the specified county (as provided in sections 22034 and 22037 of the Public Contract Code). The District did not have evidence of advertisement for bids with construction costs over $175,000 published in the two required trade journals as specified under UCCA guidelines and did not notify two additional trade journals, as specified under UCCA. This was noted all three of the contracts that were selected for review.

Recommendation: The District should have all advertisements and notifications of bids placed in the appropriate trade journals specified under UCCA guidelines. The trade journals that must be notified under UCCA guidelines for districts in San Bernardino County are: 1) Construction Bidboard (eBidboard) 2) McGraw-Hill Construction Dodge. In addition, the District must notify two of the following additional trade journals: A) Southern California Builders Association B) BidAmerica Online Planroom C) Associated General Contractors of America San Diego Chapter, Inc.

District Response: The District has advertised in Mc Graw-Hill and BidBoard for projects. District's construction management firm has been advised to advertise further in the listed journals.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2012-13.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2013- 4: School Accountability Report Card (72000)

Criteria: California Education Code § 33126 requires LEAs to complete a school accountability report card for each site with the most recent facility inspection information included. Facility inspections are required to be performed annually.

Condition: Upon review of the School Accountability Report Cards, we were unable to compare the information reported on the facilities due to the District being unable to locate the facilities inspection tools. Without being able to compare the information, we are unable to determine whether the information in the School Accountability Report Cards for facilities is accurately reported.

Questioned Cost: None.

Context: The issue was noted in two of the five schools selected; Hook Jr. High School and Silverado High School.

Cause: Based on inquiry, we learned that the individual who held the responsibility of maintaining the inspection files had retired and his replacement has been unable to locate the files.

Effect: The District is potentially providing inaccurate information to the general public through the publication of the school accountability report card.

Recommendation: It is recommended that FIT forms are kept on file to substantiate the condition of the District's facilities reported on the SARC.

District Response: Maintenance staff has been directed to keep records current and available.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2013

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2012-1: Going Concern Issues	On August 8, 2012, the San Bernardino County Superintendent of Schools disapproved the District's 2012-13 adopted budget based on several factors. Additionally, at that time the San Bernardino County Superintendent of Schools assigned a fiscal expert to assist in the development of a budget that provides appropriate evidence that the board has approved a viable action plan that allows the District to meet all fiscal obligations. On October 31, 2012, the San Bernardino County Superintendent of Schools upgraded its fiscal expert to a fiscal advisor in accordance with Education Code Section 42127.6(e), who has the power to stay or rescind any actions of the District's Board of Trustees. On September 20, 2012, the District adopted its 2012-13 revised budget with approval from the County Superintendent of Schools. Some of the concerns raised by the San Bernardino County Superintendent of Schools and the results of our audit are highlighted below: **Temporary Borrowing:** During the 2011-12 fiscal year the District's General Fund borrowed more than $24 million from other funds in order to meet cash flow needs, of which $12 million was repaid in August 2012. These interfund borrowings will need to be repaid by the District prior to the close of the 2012-13 fiscal year. **Cash Flow:** The District's most recent cash flow projections indicate that the District will end the 2012-13 year with a June 30 cash deficit of approximately $8.9 million, which represents more than 150% of the District's projected ending fund balance. This cash deficit also includes temporary borrowing from other funds of $6 million. To maintain a positive cash position, the District will need to implement further expenditure reductions or temporary borrowing.	60000	The District must work closely with the fiscal advisor and the County Superintendent of Schools to develop and implement a fiscal recovery plan that addresses each of the above issues.	Implemented.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2012-1: Going Concern Issues (continued)	**Long-Term Debt:** On September 1, 2010, the District issued General Obligation Bond Anticipation Notes in the amount of $74,500,000. The District's first payment of $27 million was due on December 1, 2012, but the District was able to negotiate with the bank to accept $15 million and defer $12 million until March 1, 2013. The District hopes to issue TRANs in February 2013 to provide sufficient cash to repay the $12 million BAN obligation. The District also hopes to issue additional general obligation bonds from its Measure V authorization and prepay the remaining $47.5 million BAN obligation; however, there are uncertainties about whether assessed valuations (AV) will be sufficient to permit further bond issuances. **Multiyear Financial Projections:** The fiscal advisor's most recent multiyear projections indicate that the District will be able to maintain a 3% reserve level in the 2012-13 fiscal year, but will need to make additional cuts of $1.27 million in 2013-14 and $8.05 million in 2014-15 to maintain fiscal solvency. The main cause of the District's insolvency in future years is the projected deficit spending of $1.1 million in 2012-13, $3.8 million in 2013-14, and $6.7 million in 2014-15. **Collective Bargaining Agreements:** The District does not have a cap on the employer cost of health benefits for employees. The District has projected an increase in expenditures related to these increasing costs, which is partially responsible for the deficit spending.			
Finding 2012-2: Capital Asset Accounting	Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP), Education Code Section 35168, and District Board Policy require the District to maintain records that properly account for capital assets.	20000	The District needs to update its capital assets listing and include a detailed and itemized listing of construction projects as of June 30, 2013. Then, update it as projects are completed and moved into the completed buildings or site improvements categories or as new costs are incurred. An employee needs to be assigned the task of tracking all future acquisitions and disposals.	Not Implemented. See Finding 2013-1.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2012-2: Capital Asset Accounting (continued)	Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District. The District was unable to clearly identify the capital assets recorded during the 2011-12 fiscal year. Furthermore, the District did not maintain a detailed inventory of capital assets. Our audit was able to determine that the expenditures were for proper capital costs, but not the nature of the project or the amount of the depreciable assets in the current year. The construction in progress, which accounts for current construction projects, is not being properly reconciled at the completion of projects which should begin to be depreciated at project completion. The District's depreciation expense may be understated if the costs were for projects that were completed during the year and not added to the depreciation schedule; however, we believe the understatement of depreciation expense would be immaterial.			
Finding 2012-3: Cash Receipts	During our testing of controls at the District Office we noted that there is a lack of segregation of duties in the cash receipting function. Currently, the mail comes into a Fiscal Services Specialist who opens the mail, prepares the deposit, and then prepares a listing for the recording of receipts into the system. This same person has full access to the accounting system. Additionally, the same specialist is in charge of monitoring and following up on accounts receivable. During our inquiry and observation of internal controls over cash receipts, it was also noted that all cash deposits are kept in a locked filing cabinet in the vault.	30000	We recommend that an employee, who does not have access to the accounting system, open the mail and create a duplicate listing of the cash and checks received. This listing should be forwarded to the specialist who then prepares the deposit, with a duplicate copy going to the specialist in charge of recording. It is also recommended that the key to the filing cabinet be held in a more secure location to limit any potential access to cash.	Implemented.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2012-3: Cash Receipts (continued)	However; it was further noted that all fiscal services employees have access to the key which opens the filing cabinet. The vault door is also left open. This allows multiple employees to have access to cash deposits.			
Finding 2012-4: Inappropriate Use of Bond Proceeds	Proceeds from the sale of bonds are to be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities or the acquisition or lease of real property for school facilities in connection with specific school projects. The District expended $999,275 for the purchase of seven school buses out of bond proceeds, which are not allowable under the bond language according to Resolution number 09-01 of the Victor Valley Union High School District. Also, due to continued state budget cuts and deferrals of state apportionments, the District borrowed $12 million from the Measure "V" funds to meet cash flow shortages in the General Fund during 2010-11. According to Education Code section 42603, such borrowing is permitted, but the funds must be repaid during the following fiscal year. The District repaid the loan, but then re-borrowed it, which is in essence the same as not repaying it. Furthermore, during 2012-13, the District is required to repay a $27 million obligation on Bond Anticipation Notes. This repayment will further limit the District's ability to repay the $12 million loan and will require that even more Measure "V" bond funds will need to be borrowed.	60000	We recommend that the District pay for the bus purchases out of the General Fund by repaying the Building Fund for the cost of the expenditures of the seven buses. In addition, the District will likely need to stop all construction projects, except for Adelanto and Silverado High Schools, so that cash is available. The District will need to develop a repayment plan to repay the Measure "V" funds with interest.	Implemented.
Finding 2012-5: School Accountability Report Card	Education Code Section 33126 requires that the District prepare a school accountability report card for each site which should allow parents to make meaningful comparisons between public schools to make an informed decision on the school in which to enroll his or her child. The school accountability report card shall include an assessment of the safety, cleanliness and adequacy of school facilities.	72000	The District should use the facility inspection performed in the prior year, if the inspection has not been completed for the current year by the time the school accountability report card needs to be published.	Implemented; however, see Finding 2013-4.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2012-5: School Accountability Report Card (continued)	The District prepared a school accountability report card for the Goodwill Education Center as required, but did not include information on the assessment of the site's safety, cleanliness or adequacy of school facilities in the report card published on the District's website.			
Finding 2012-6: After School Education and Safety Program	Education Code Section 8483.75 requires that a Local Educational Agency receiving funds for the After School Education and Safety program shall provide an amount of cash or in-kind local funds equal to not less than one-third of the total grant awarded. Additionally, facility usage may not fulfill more than 25 percent of the required local contribution. The District was required to contribute at least $100,000 in local matching funds for the 2011-12 year. However, the District's total local contribution was only $91,550.	40000	The District should establish better oversight procedures to ensure that all grant award conditions are met in the future to prevent any funding loss.	Implemented.

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

To the Board of Trustees
Victor Valley Union High School District
Victorville, California

In planning and performing our audit of the basic financial statements of Victor Valley Union High School District for the year ending June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 16, 2013, on the financial statements of Victor Valley Union High School District.

CASH DISBURSEMENTS

Observation: During testing of expenditures we noted that 11 of 32 expenditures had exceptions. Six had purchase orders dated after the invoice. One expenditure was for a credit card payment for membership fees. Membership fees are listed as prohibited expenses in the credit card policy. In addition, the credit card expense tested included charges for Disneyland expenses which were reimbursed by the credit card holder. This qualifies as using the card for cash advances. According to District personnel, they have already implemented corrective action and cancelled this employee's card. Two of 32 expenditures did not have purchase orders. One expenditure was for a travel/conference expense and the employee did not submit a travel request form to receive pre-approval. Finally, one expenditure was charged to the incorrect object code. The expense was for travel/conference and was charged to 5886.

Recommendation: It is recommended that all employees be reminded of the importance of following proper procedures for cash disbursements. Preapproval with a purchase order or travel/conference request is essential in order to avoid incurring inappropriate expenditures or exceeding budgeted amounts. In addition, the credit card expenditures must be closely monitored to avoid using district funds for personal expenses or any expenses listed as prohibited in the credit card policy.

CASH RECEIPTS

Observation: During our inquiry and observation of internal controls over cash receipts, it was noted that all cash deposits are kept in a vault in the back of the office. The vault is left open during the day for easy access, but the room that contains it is locked. It was further noted that all fiscal services employees have access to the key, which is kept on the back of the door in an unlocked supply closet next door. We observed that the vault is in a remote, unused corner of the building. Employees could easily access the area without being detected.

Recommendation: We recommend that the key be held in a more secure location to limit any potential access to cash.

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CASH RECEIPTS (continued)

Observation: During our testing of cash receipts, we noted that three of ten deposits tested contained checks or cash deposited more than ten days after their receipt. Delayed deposit of cash could result in misplaced or stolen cash and stale dated checks.

Recommendation: We recommend that the District deposits all funds received within a few days of receipt of the funds.

BANK RECONCILIATIONS

Observation: We also noted that seven of nine bank statements were reconciled more than one month after their closing dates. Timely reconciliation of bank statements helps to insure that errors are found and corrected within the appropriate period.

Recommendation: We recommend that the District ensure bank statements are reconciled within at least two weeks after the bank statements are issued.

Observation**:** Cafeteria funds are deposited into the cash clearing account. The clearing account is reconciled by the previous Director of Fiscal Services and the reconciliations are not reviewed by anyone. This has been the procedure for the entire 2012-13 fiscal year.

Recommendation**:** It is recommended that the reconciliations be performed and reviewed by two separate individuals. It is important that at least o individuals review the statements and reconciliations to provide for checks and balances.

RETIREE HEALTHCARE PREMIUMS

Observation: Through inquiry and observation, we noted that the District sends retirees invoices once per year for their annual portions of the healthcare premiums. The retirees are instructed to send back 12 post-dated checks which are placed in the safe and cashed monthly to correspond with the monthly invoicing cycle of the vendor. This practice leaves the District with a greater risk of stale-dated checks, NSF checks, closed accounts, loss or employee theft.

Recommendation: We recommend that the District implement monthly invoicing and deposit all checks as they are received, instead of holding on to them for extended periods of time.

INFORMATION TECHNOLOGY

Observation: In reviewing general computer controls with the Lead Network Engineer, we noted that the quantity of the staff in the department had recently been cut from five employees to one and the duties of the remaining employee have not yet been reviewed with him. A lack of internal control in the IT Department and the employee's lack of clear understanding of his responsibilities could render the District unable to adequately back-up its data, control its user access, or properly secure its systems and data.

Recommendation: We recommend that the District reassess the duties of the IT department and communicate its expectations to its staff.

ASSOCIATED STUDENT BODY (ASB)

Observation: In reviewing the bank statements for the ASBs at all sites, we noted that reconciliations are not being performed in a timely manner. For instance, in Lakeview Middle School, we noted that bank reconciliations for months August-November were not reconciled until April, which constituted a delay of greater than 3 months before bank statements were reconciled.

Recommendation: We recommend that the sites ensure the bank statements are reconciled within two weeks after the bank statements are issued to properly identify any material misstatements in a timely manner.

Cash Disbursement Approvals

Observation: From the cash disbursements sampled we noted the following:

- **Hook Jr High -** we noted that two of the six disbursements selected in our sample were not approved by the District representative.
- **Cobalt Middle School -** we noted that three of the five disbursements selected in our sample were not approved by the District representative. We also noted that one of the five disbursements selected in our sample was not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred.
- **Silverado High School -** We noted that 22 of the 25 disbursements selected in our sample were not approved by the District representative (22), the ASB advisor (1), and the student representative (9). Two of the twenty-five disbursements also lacked a purchase order with an amount documented and authorized. One of the twenty-five expenditures was approved after the expense had already been incurred. Based on our testing and inquiry, the site lacks procedures to require approval of a district representative for individual purchase orders. During our testing, we also noted that there were several purchase orders with "multiple" as the vendor, and having numerous unrelated transactions on each purchase order.
- **University Prep High School -** In our test of cash disbursements, we noted that eleven of the eighteen disbursements selected in our sample were not approved by the District representative, and in one case none of the three required approvals were obtained. It was also noted that four of the eighteen disbursements selected in our sample were approved by the District representative, the ASB advisor, and the student representative, but not until after the expenditure had already been incurred.
- **Victor Valley High School -** In our test of cash disbursements, we noted twenty-five of the twenty-five disbursements selected in our sample were not approved by the District representative (twenty-five), and in some cases they were not approved by the ASB advisor (1) and the student representative (6). It was also noted that one of the twenty-five disbursements selected in our sample was not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a "best practice", approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

Cash Disbursements – Lack of Receipt of Goods

Observation: During our review of cash disbursements, the following was noted:

- **Victor Valley High School -** Ten of the twenty-five disbursements tested lacked evidence of receipt of goods or services.
- **Silverado High School -** Six of the twenty-five disbursements tested lacked evidence of receipt of goods or services.

ASSOCIATED STUDENT BODY (ASB) (continued)

Cash Disbursements – Lack of Receipt of Goods (continued)

Recommendation: We recommend that the site document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing "ok to pay" or "received" and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.

Silverado High School

Observation: We noted that the ASB bookkeeper is not preparing or submitting financial statements to the District Office on a periodic basis. Financial statement review is an important internal control for the ASB bookkeeper and the District to review the overall financial reporting of the ASB funds.

Recommendation: The bookkeeper should review the statements on a periodic basis to identify any discrepancies, improper accounts, and/or overdrawn trust accounts. We recommend that periodic financial statements be prepared and reviewed, and subsequently submitted to the District office on a monthly basis to ensure proper oversight and strong internal controls.

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

Nigro & Nigro, PC

December 16, 2013