



**VICTOR VALLEY UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2016

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Fiduciary Funds - Statement of Net Position	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	66
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	67
Schedule of the District's Proportionate Share of Net Pension Liability	68
Schedule of District Contributions	69
Note to Required Supplementary Information	70

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	72
Local Education Agency Organization Structure	73
Schedule of Average Daily Attendance	74
Schedule of Instructional Time	75
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	76
Schedule of Financial Trends and Analysis	77
Schedule of Charter Schools	78
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	80
Note to Supplementary Information	81

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	84
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	86
Report on State Compliance	88

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	92
Financial Statement Findings	93
Federal Awards Findings and Questioned Costs	94
State Awards Findings and Questioned Costs	95
Summary Schedule of Prior Audit Findings	97
Management Letter	107

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Victor Valley Union High School District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Victor Valley Union High School District (the District) as of and for the year ended June 30, 2016, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District'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 District'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.

Opinion

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 the Victor Valley Union High School District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, in 2016, the District began receiving a dedicated revenue source for its Adult Education Fund which meets the definition of a special revenue fund under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. Our opinion is not modified with respect to this matter.

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 5 through 13, budgetary comparison schedule on page 66, schedule of other postemployment benefits funding progress on page 67, schedule of the District's proportionate share of net pension liability on page 68, and the schedule of District contributions on page 69, 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 the Victor Valley Union High School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information 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 accompanying 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 13, 2016, on our consideration of the Victor Valley Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Victor Valley Union High School District's internal control over financial reporting and compliance.

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 13, 2016

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VICTOR VALLEY UNION HIGH SCHOOL DISTRICT
DISTRICT OFFICE ADMINISTRATION
16350 Mojave Drive, Victorville, CA 92395-3655
760.955.3201

Dr. Ron Williams, Superintendent

This section of Victor Valley Union High School District's (the District) (2015-2016) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016, with comparative information from 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is the Victor Valley Union High School District.

BOARD OF TRUSTEES

Barbara J. Dew

Penny Edmiston

Timothy G. Hawk

Timothy A. Norton

Rosalio Hinojos

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - The District reports all of its services in this category. This includes the education of seventh through twelfth grade students, adult education students, the operation of a community day school program, two charter schools, and the on-going effort to expand, improve, and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$92,260,601 for the fiscal year ended June 30, 2016. Of this amount, (\$104,174,625) was unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 74,477,206	\$ 47,158,302
Capital assets	<u>285,413,784</u>	<u>296,553,115</u>
Total Assets	<u>359,890,990</u>	<u>343,711,417</u>
Deferred Outflows of Resources		
Current year pension contribution	<u>30,002,897</u>	<u>4,917,133</u>
Liabilities		
Current liabilities	9,556,043	11,162,223
Long-term obligations (includes current portion)	201,060,644	171,157,871
Aggregate pension liability	<u>71,270,338</u>	<u>50,096,967</u>
Total Liabilities	<u>281,887,025</u>	<u>232,417,061</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	<u>15,746,261</u>	<u>15,820,782</u>
Net Position		
Net investment in capital assets	176,810,567	185,255,385
Restricted	19,624,659	19,751,146
Unrestricted (Deficit)	<u>(104,174,625)</u>	<u>(104,615,824)</u>
Total Net Position	<u>\$ 92,260,601</u>	<u>\$ 100,390,707</u>

The (\$104,174,625) in unrestricted deficit of governmental activities represents the *accumulated* results of all past years' operations. Unrestricted net position is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. The unrestricted net position decreased by 0.42 percent (\$104.2 million deficit compared to \$104.6 million deficit in the prior year).

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,090,834	\$ 1,804,660
Operating grants and contributions	18,599,771	18,719,992
Capital grants and contributions	4,663	4,506
General revenues:		
Federal and State aid, not restricted	87,657,629	71,522,473
Property taxes	16,876,906	18,294,771
Other general revenues	4,733,820	3,627,048
Total Revenues	<u>128,963,623</u>	<u>113,973,450</u>
Expenses		
Instruction	65,818,012	62,867,012
Instruction-related	11,274,639	9,413,632
Pupil services	14,862,070	13,725,755
Administration	6,765,874	5,959,940
Maintenance and operations	12,170,827	12,295,682
Other	26,202,307	18,070,159
Total Expenses	<u>137,093,729</u>	<u>122,332,180</u>
Change in Net Position	<u>\$ (8,130,106)</u>	<u>\$ (8,358,730)</u>

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$137,093,729. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$16,876,906. The remaining cost was paid by those who benefited from the programs; \$1,090,834, or by other governments and organizations who subsidized certain programs with \$18,604,434 in grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with State funds, and with other revenues, like interest and general entitlements.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

In Table 3, we have presented the cost of each of the District's largest functions: instruction and instruction-related, pupil services, administration, maintenance and operations, and other outgo. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction and instruction-related	\$ 77,092,651	\$ 72,280,644	\$ 64,445,219	\$ 59,303,154
Pupil services	14,862,070	13,725,755	9,108,677	8,466,546
Administration	6,765,874	5,959,940	6,351,129	5,219,551
Maintenance and operations	12,170,827	12,295,682	12,123,682	12,219,404
Other outgo	26,202,307	18,070,159	25,369,754	16,594,367
Total	\$ 137,093,729	\$ 122,332,180	\$ 117,398,461	\$ 101,803,022

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$65,779,346 which is an increase of \$29,140,767 or 79.5 percent, from last year (Table 4).

Table 4

	Balances and Activity			
	as Restated			
	July 01, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 20,875,812	\$ 118,076,626	\$ 113,642,819	\$ 25,309,619
Capital Projects Fund for Blended Component Units	32,618	23,988,911	953,196	23,068,333
Bond Interest and Redemption Fund	8,985,640	48,430,103	51,651,818	5,763,925
Non-Major Governmental Funds	6,744,509	16,297,189	11,404,229	11,637,469
Total	\$ 36,638,579	\$ 206,792,829	\$ 177,652,062	\$ 65,779,346

The primary reasons for the increases/decreases to the Districts' fund balances are:

1. The General Fund increased due to the carryover of one-time funds and additional revenue as the Districts ADA increased for the first year in the last five.
2. Capital Projects Funds increased as a result of the COP issued by the District.
3. Bond Interest and Redemption Funds decreased due to refunding of several bond issuances this past year. These funds will balance out over time with the San Bernardino County Auditor-Controller's office.
4. Non-Major Governmental funds increased as a result of completing phase one of the VVHS administration building. This and other projects added to the assets of the District.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to manage unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June, 24, 2016. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our audit report on page 66.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$285,413,784 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$11,139,331 or 3.8 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2016	2015
Land and construction in progress	\$ 11,420,532	\$ 13,969,124
Buildings and improvements, net of depreciation	270,932,806	274,435,442
Furniture and equipment, net of depreciation	3,060,446	8,148,549
Total	\$ 285,413,784	\$ 296,553,115

This year's decrease of \$11.9 million in capital asset additions is primarily a result of depreciation of major assets of the District.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Long-Term Obligations

At the end of this year, the District had \$201,060,643 in long-term obligations outstanding versus \$171,157,871 last year, an increase of 17.5 percent. These long-term obligations consisted of:

Table 6

	Governmental Activities	
	2016	2015
General obligation bonds	\$ 153,905,422	\$ 148,376,504
Certificates of participation	26,719,460	4,183,842
Compensated absences	2,598,495	2,434,264
Equipment lease financing	3,841,453	4,056,720
Voluntary retirement program	2,771,714	2,962,658
Other postemployment benefits	11,224,100	9,143,883
Total	\$ 201,060,644	\$ 171,157,871

General Obligation Bonds, Capital Lease, and Certificates of Participation obligations decreased by the required annual principal payment. Other obligations include compensated absences payable equipment lease financing, and voluntary retirement payable, all of which increased from the prior year. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

The District had a net pension liability of \$71,270,338 and \$50,096,967 at June 30, 2016 and 2015, respectively, as a result of the implementation of GASB Statement No. 68 during the prior fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016-2017 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are the following:

1. Local Control Funding Formula income will increase based the Department of Finance estimates.
2. Federal and State income are computed using the 2016-2017 amounts adjusted to reflect anticipated changes in enrollment data for the respective qualifying populations.
3. Other Local Income can tend to be volatile. A large portion of revenues are one-time dollars that the District will use over the next two years.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

4. Enrollment/Average Daily Attendance (ADA) is expected to increase again in 2016-2017. Next year's budget will be based on the prior year ADA. Until the District actually see increased enrollment, it will maintain a conservative estimate.
5. Increases in the CalSTRS and CalPERS retirement systems will continue to increase at ever higher percentage rates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Brian Hawkins, Assistant Superintendent, Business Services, at Victor Valley Union High School District, 16350 Mojave Drive, Victorville, California 92395, (760) 955-3201, or e-mail at BHawkins@vvusd.org.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 69,134,963
Receivables	5,158,334
Prepaid expenditures	39,857
Stores inventories	144,052
Capital assets	
Nondepreciable capital assets	11,420,532
Capital assets being depreciated	348,412,120
Accumulated depreciation	<u>(74,418,868)</u>
Total Capital Assets	<u>285,413,784</u>
Total Assets	<u>359,890,990</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	5,047,864
Deferred outflows of resources related to pensions	<u>24,955,033</u>
Total Deferred Outflows of Resources	<u>30,002,897</u>
LIABILITIES	
Accounts payable	8,248,096
Interest payable	858,183
Unearned revenue	449,764
Long-term obligations	
Current portion of long-term obligations other than pensions	8,868,464
Noncurrent portion of long-term obligations other than pensions	<u>192,192,180</u>
Total Long-Term Obligations	<u>201,060,644</u>
Aggregate net pension liability	<u>71,270,338</u>
Total Liabilities	<u>281,887,025</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>15,746,261</u>
NET POSITION	
Net investment in capital assets	176,810,567
Restricted for:	
Debt service	4,980,246
Capital projects	8,485,310
Educational programs	3,852,798
Other activities	2,306,305
Unrestricted (Deficit)	<u>(104,174,625)</u>
Total Net Position	<u>\$ 92,260,601</u>

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 65,818,012	\$ 398	\$ 11,132,187	\$ 4,663	\$ (54,680,764)
Instruction-related activities:					
Supervision of instruction	3,427,177	-	1,188,643	-	(2,238,534)
Instructional library, media and technology	891,418	-	131,230	-	(760,188)
School site administration	6,956,044	-	190,311	-	(6,765,733)
Pupil services:					
Home-to-school transportation	3,824,726	-	25,881	-	(3,798,845)
Food services	5,017,141	370,559	4,276,885	-	(369,697)
All other pupil services	6,020,203	-	1,080,068	-	(4,940,135)
Administration:					
Data processing	1,356,379	-	4,257	-	(1,352,122)
All other administration	5,409,495	387	410,101	-	(4,999,007)
Plant services	12,170,827	677	46,468	-	(12,123,682)
Facility acquisition and construction	-	-	68,678	-	68,678
Ancillary services	1,968,387	-	-	-	(1,968,387)
Interest on long-term obligations	9,641,039	-	-	-	(9,641,039)
Other outgo	688,386	718,813	45,062	-	75,489
Depreciation (unallocated)	13,904,495	-	-	-	(13,904,495)
Total School District	\$ 137,093,729	\$ 1,090,834	\$ 18,599,771	\$ 4,663	(117,398,461)
General Revenues and Subventions:					
Property taxes, levied for general purposes					9,800,815
Property taxes, levied for debt service					4,837,293
Taxes levied for other specific purposes					2,238,798
Federal and State aid not restricted to specific purposes					87,657,629
Interest and investment earnings					147,684
Miscellaneous					4,586,136
Subtotal, General Revenues					109,268,355
Change in Net Position					(8,130,106)
Net Assets - Beginning					100,390,707
Net Position - Ending					\$ 92,260,601

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	<u>General Fund</u>	<u>Capital Project Fund for Blended Component Units</u>	<u>Bond Interest and Redemption Fund</u>
ASSETS			
Deposits and investments	\$ 27,628,048	\$ 23,068,333	\$ 5,763,925
Receivables	4,760,938	-	-
Due from other funds	683,208	-	-
Prepaid expenditures	39,857	-	-
Stores inventories	133,799	-	-
Total Assets	<u>\$ 33,245,850</u>	<u>\$ 23,068,333</u>	<u>\$ 5,763,925</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 7,486,467	\$ -	\$ -
Due to other funds	-	-	-
Unearned revenue	449,764	-	-
Total Liabilities	<u>7,936,231</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	248,656	-	-
Restricted	3,796,271	23,068,333	5,763,925
Assigned	8,266,719	-	-
Unassigned	12,997,973	-	-
Total Fund Balances	<u>25,309,619</u>	<u>23,068,333</u>	<u>5,763,925</u>
Total Liabilities and Fund Balances	<u>\$ 33,245,850</u>	<u>\$ 23,068,333</u>	<u>\$ 5,763,925</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 12,674,657	\$ 69,134,963
397,396	5,158,334
-	683,208
-	39,857
10,253	144,052
<u>\$ 13,082,306</u>	<u>\$ 75,160,414</u>

\$ 761,629	\$ 8,248,096
683,208	683,208
-	449,764
<u>1,444,837</u>	<u>9,381,068</u>

10,253	258,909
11,551,483	44,180,012
75,733	8,342,452
-	12,997,973
<u>11,637,469</u>	<u>65,779,346</u>
<u>\$ 13,082,306</u>	<u>\$ 75,160,414</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Total Fund Balance - Governmental Funds	\$ 65,779,346
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 359,832,652
Accumulated depreciation is:	<u>(74,418,868)</u>
Net Capital Assets	285,413,784
Expenditures relating to issuance of debt were recognized on the modified accrual basis. Under the accrual basis, these expenditures are capitalized and amortized as an adjustment to interest expense.	5,047,864
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	6,114,289
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when incurred.	(858,183)
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(13,704,085)
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of the members receiving pension benefits.	17,732,005
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	340,585
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(1,274,022)

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016**

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (71,270,338)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	\$ 101,749,727	
Certificates of participation	26,719,460	
Compensated absences (vacations)	2,598,494	
Equipment lease financing	3,841,453	
Voluntary retirement plan (VRP)	2,771,715	
Other postemployment benefits	11,224,100	
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:		
	<u>52,155,695</u>	
Total Long-Term Obligations		<u>(201,060,644)</u>
Total Net Position - Governmental Activities		<u>\$ 92,260,601</u>

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	\$ 90,912,662	\$ -	\$ -
Federal sources	7,978,660	-	-
Other State sources	11,388,816	-	85,229
Other local sources	7,796,488	30,049	4,895,306
Total Revenues	<u>118,076,626</u>	<u>30,049</u>	<u>4,980,535</u>
EXPENDITURES			
Current			
Instruction	62,225,898	-	-
Instruction-related activities:			
Supervision of instruction	3,152,278	-	-
Instructional library, media, and technology	860,341	-	-
School site administration	6,706,543	-	-
Pupil services:			
Home-to-school transportation	5,059,122	-	-
Food services	2,463	-	-
All other pupil services	5,809,232	-	-
Administration:			
Data processing	1,408,996	-	-
All other administration	5,260,789	-	-
Plant services	11,982,104	-	-
Facility acquisition and construction	1,907,209	-	-
Ancillary services	1,912,338	-	-
Other outgo	688,386	-	-
Debt service			
Principal	215,267	-	6,325,000
Interest and other	123,850	953,196	2,437,021
Total Expenditures	<u>107,314,816</u>	<u>953,196</u>	<u>8,762,021</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,761,810</u>	<u>(923,147)</u>	<u>(3,781,486)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(6,328,003)	-	-
Other sources - proceeds from refunding bonds	-	-	41,530,000
Other sources - premium on refunding bonds	-	-	1,919,568
Other sources - proceeds from certificates of participation	-	23,785,000	-
Other sources - premium on certificates of participation	-	173,862	-
Other uses - payment for refunding of debt	-	-	(42,889,797)
Net Financing Sources (Uses)	<u>(6,328,003)</u>	<u>23,958,862</u>	<u>559,771</u>
NET CHANGE IN FUND BALANCES	4,433,807	23,035,715	(3,221,715)
Fund Balances - Beginning	20,945,416	32,618	8,985,640
Restatement	(69,604)	-	-
Fund Balances - Ending	<u>\$ 25,309,619</u>	<u>\$ 23,068,333</u>	<u>\$ 5,763,925</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 90,912,662
4,283,880	12,262,540
606,908	12,080,953
1,126,150	13,847,993
<u>6,016,938</u>	<u>129,104,148</u>
71,576	62,297,474
167,557	3,319,835
1,587	861,928
22,488	6,729,031
-	5,059,122
4,918,712	4,921,175
-	5,809,232
-	1,408,996
8,055	5,268,844
9,597	11,991,701
1,164,159	3,071,368
-	1,912,338
-	688,386
910,000	7,450,267
178,250	3,692,317
<u>7,451,981</u>	<u>124,482,014</u>
<u>(1,435,043)</u>	<u>4,622,134</u>
7,170,251	7,170,251
(842,248)	(7,170,251)
-	41,530,000
-	1,919,568
3,110,000	26,895,000
-	173,862
<u>(3,110,000)</u>	<u>(45,999,797)</u>
<u>6,328,003</u>	<u>24,518,633</u>
4,892,960	29,140,767
6,674,905	36,638,579
69,604	-
<u>\$ 11,637,469</u>	<u>\$ 65,779,346</u>

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 YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds		\$ 29,140,767
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	\$ (13,904,495)	
Capital outlays	<u>8,643,370</u>	
Net Expense Adjustment		(5,261,125)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(5,878,206)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and voluntary retirement plan are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts paid by \$164,230 and voluntary retirement benefits paid was \$190,943.		26,713
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(1,060,950)
Proceeds received from refunding of general obligation bonds and issuance certificates of participation is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		(41,530,000)
Certificates of participation		(26,895,000)

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

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 (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

Governmental funds report the effect of premiums and the deferred amount on a refunding when debt is first issued, whereas the amounts are deferred and amortized on the Statement of Activities. This amount is the net effect of these related items (net of amortization):

Premium on debt issuance	\$ (2,093,430)	
Discount on debt issuance	346,648	
Amortized of premium on bond debt for the period	230,251	
Amortized of premium on certificates of participation for the period	169,637	
Amortized of discount on certificates of participation for the period	(3,041)	
Deferred amount on refunding	<u>5,047,864</u>	\$ 3,697,929

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

General obligation bonds	43,870,000	
Certificates of participation	4,020,000	
Equipment lease obligation	<u>215,267</u>	48,105,267

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

(2,080,217)

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(6,395,284)

Change in Net Position of Governmental Activities

\$ (8,130,106)

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Fiduciary Funds		
	Debt Service Fund for Special Tax Bonds	Associated Student Bodies	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 1,371,599	\$ 549,280	\$ 1,920,879
Stores inventories	-	63,677	63,677
Total Assets	\$ 1,371,599	\$ 612,957	\$ 1,984,556
LIABILITIES			
Accounts payable	\$ -	\$ 48,359	\$ 48,359
Due to student groups	-	564,598	564,598
Due to bond holders	1,371,599	-	1,371,599
Total Liabilities	\$ 1,371,599	\$ 612,957	\$ 1,984,556

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Victor Valley Union High School District (the District) was organized in 1915 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades 7 - 12 as mandated by the State and/or Federal agencies. The District operates three junior high schools, three comprehensive high schools, a continuation high school, and alternative educational programs.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Victor Valley Union High School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Victor Valley Union High School District Public Financing Corporation's financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and the Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for Victor Valley Union High School District Public Financing Corporation.

The District established Community Facilities Districts (CFD) No. 2003-1 and 2007-1 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations 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 CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Other Related Entities

Charter School The District has approved Charters for Excelsior Charter School (Charter No. 0074) and Options for Youth – Victor Valley Charter School (Charter No. 0013) pursuant to *Education Code* Section 47605. All of the Charter Schools are not operated by the District, and their financial activities are not presented in the District's financial statements. The Charter Schools are operated by separate governing boards and are not considered component units of the District. The Charter Schools receive State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

Basis of Presentation - Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue funds in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues, and expenditures of \$1,869,902, \$1,857,545, \$4,114, and \$374,271, respectively.

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local resources for adult education programs and is to be expended for adult education purposes only.

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

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

Debt Service Fund This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term obligation.

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

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, of the District, and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net position use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the fiduciary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide Statement of Net Position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 15 to 20 years; equipment, 5 to 20 years, and vehicles, 8 years.

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Premiums

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In governmental fund financial statements, bond premiums are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension contributions and for the unamortized amount on net change in proportionate share of net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

Unassigned - all other spendable amounts.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$19,624,659 of restricted net position.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Property Tax

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

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 69,134,963
Fiduciary funds	1,920,879
Total Deposits and Investments	<u>\$ 71,055,842</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 1,031,551
Cash in revolving	75,000
Investments	69,949,291
Total Deposits and Investments	<u>\$ 71,055,842</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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

General Authorizations

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

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Bernardino County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

Investment Type	Amount Reported	Weighted-Average Days to Maturity
First American Treasury Obligations Fund Class D	\$ 974,003	35
First American Government Obligations Fund Class D	449,018	26
Fidelity Institutional Prime Money Market Fund	23,016,911	30
San Bernardino County Investment Pool	45,509,359	311
Total	\$ 69,949,291	

Credit Risk

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

The investment in the San Bernardino County Investment Pools has been rated AAA by Fitch ratings. The investment in First American Treasury and Government Obligations Fund Class D have been rated Aaa-mf by Moody's Investor Service as of June 30, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool or mutual funds and are therefore exempt.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of \$295,375 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Uncategorized - Investments in the San Bernardino County Treasury Investment Pool and/or Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal Government			
Categorical aid	\$ 2,736,976	\$ 357,193	\$ 3,094,169
State Government			
Categorical aid	13,460	28,253	41,713
Special education	610,881	-	610,881
Lottery	1,000,404	-	1,000,404
Local Government			
Interest	53,393	11,138	64,531
Other Local Sources	345,824	812	346,636
Total	<u>\$ 4,760,938</u>	<u>\$ 397,396</u>	<u>\$ 5,158,334</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 10,687,177	\$ -	\$ -	\$ 10,687,177
Construction in Progress	3,281,947	733,355	3,281,947	733,355
Total Capital Assets Not Being Depreciated	<u>13,969,124</u>	<u>733,355</u>	<u>3,281,947</u>	<u>11,420,532</u>
Capital Assets Being Depreciated:				
Land Improvements	19,064,568	1,675,569	-	20,740,137
Buildings and Improvements	302,883,886	8,132,051	-	311,015,937
Furniture and Equipment	23,001,884	1,384,342	7,730,180	16,656,046
Total Capital Assets Being Depreciated	<u>344,950,338</u>	<u>11,191,962</u>	<u>7,730,180</u>	<u>348,412,120</u>
Total Capital Assets	<u>358,919,462</u>	<u>11,925,317</u>	<u>11,012,127</u>	<u>359,832,652</u>
Less Accumulated Depreciation:				
Land Improvements	8,929,666	268,710	-	9,198,376
Buildings and Improvements	38,583,346	13,041,546	-	51,624,892
Furniture and Equipment	14,853,335	594,239	1,851,974	13,595,600
Total Accumulated Depreciation	<u>62,366,347</u>	<u>13,904,495</u>	<u>1,851,974</u>	<u>74,418,868</u>
Governmental Activities Capital Assets, Net	<u>\$ 296,553,115</u>	<u>\$ (1,979,178)</u>	<u>\$ 9,160,153</u>	<u>\$ 285,413,784</u>

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

Governmental Activities	
Unallocated	<u>\$ 13,904,495</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds are as follows:

Due To	Due From Non-Major Governmental Funds
General Fund	\$ 683,208

A balance of \$659,658 due to the General Fund from the Non-Major Governmental Cafeteria Fund resulted from reimbursement of indirect costs, health benefits, and sales tax payable.

A balance of \$15,281 due to the General Fund from the Non-Major Governmental Building Fund resulted from reimbursement of sales tax liability.

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer To	General Fund	Transfer From Non-Major Governmental Funds	Total
Non-Major Governmental Funds	\$ 6,328,003	\$ 842,248	\$ 7,170,251

The General Fund transferred to the Special Reserve Capital Projects Fund for redevelopment agency funds associated with facility projects.

\$ 6,328,003

The Non-Major Governmental Capital Facilities Fund transferred to the Non-Major Governmental Debt Service Fund for Blended Component Units for Certificates of Participation debt service payments.

842,248

Total

\$ 7,170,251

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Fiduciary Funds
Salaries and benefits	\$ 4,339,542	\$ 169,892	\$ 4,509,434	\$ -
Local control funding formula	454,848	-	454,848	-
Supplies and materials	495,494	14,470	509,964	48,359
Services	1,070,955	9,895	1,080,850	-
Construction	590,544	2,855	593,399	-
Due to Charter Schools	38,837	-	38,837	-
Due to San Bernardino County Superintendent of Schools	444,209	-	444,209	-
School facilities	-	564,517	564,517	-
Other significant payables	52,038	-	52,038	-
Total	<u>\$ 7,486,467</u>	<u>\$ 761,629</u>	<u>\$ 8,248,096</u>	<u>\$ 48,359</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund
Federal financial assistance	\$ 88,672
State categorical aid	361,092
Total	<u>\$ 449,764</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General Obligation Bonds	\$ 144,286,388	\$ 47,709,601	\$ 43,870,000	\$ 148,125,989	\$ 6,835,000
Premium on bond	4,090,116	1,919,568	230,251	5,779,433	-
Certificates of Participation	4,020,000	26,895,000	4,020,000	26,895,000	1,030,000
Premium on certificates	163,842	173,862	169,637	168,067	-
Discount on certificates	-	(346,648)	(3,041)	(343,607)	-
Compensated absences	2,434,264	164,231	-	2,598,495	-
Equipment lease financing	4,056,720	-	215,267	3,841,453	559,065
Voluntary retirement program	2,962,658	-	190,944	2,771,714	444,399
Other postemployment benefits	9,143,883	3,428,024	1,347,807	11,224,100	-
	<u>\$ 171,157,871</u>	<u>\$ 79,943,638</u>	<u>\$ 50,040,865</u>	<u>\$ 201,060,644</u>	<u>\$ 8,868,464</u>

Payments made on the General Obligation Bonds are made from the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation are made from the Debt Service Fund.

The compensated absences will be paid by the fund for which the employee worked. Payments for the equipment lease financing and the voluntary retirement program will be made by the General Fund. Other postemployment benefits are generally paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2016	
				Outstanding July 1, 2015	Issued	Accreted		Redeemed
4/7/1999	8/1/2020	4.60-5.10%	\$ 30,158,731	\$ 24,206,708	\$ -	\$ 1,375,133	\$ 5,245,000	\$ 20,336,841
10/7/2009	8/1/2028	1.75-5.77%	69,999,600	78,825,624	-	2,353,603	37,825,000	43,354,227
2/26/2013	8/1/2052	1.35-5.90%	36,839,953	41,254,056	-	2,450,865	800,000	42,904,921
5/3/2016	8/1/2034	2.00-5.00%	41,530,000	-	41,530,000	-	-	41,530,000
			<u>\$ 144,286,388</u>	<u>\$ 41,530,000</u>	<u>\$ 41,530,000</u>	<u>\$ 6,179,601</u>	<u>\$ 43,870,000</u>	<u>\$ 148,125,989</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1999 Election General Obligation Bonds, Series A

On April 7, 2009 and April 20, 2009, the District issued \$30,158,731 of Series A, 1999 Refunding General Obligation Bonds. The bonds were issued as follows: current interest bonds of \$4,405,000 with stated interest rates ranging from 4.60 to 5.10 percent and maturing August 1, 2007, and capital appreciation bonds fully maturing on August 1, 2020. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities. At June 30, 2016, the principal balance outstanding was \$20,336,841. Unamortized premium received on issuance of the bonds amounted to \$3,868 as of June 30, 2016.

2008 Election General Obligation Bonds, Series 2009

On October 7, 2009, the District issued \$69,999,600 of Series 2009 General Obligation Bonds consisting of \$37,545,000 in current interest bonds, \$13,206,759 term bonds, and \$19,247,841 in capital appreciation bonds. The Series A have a final maturity to occur on August 1, 2034. Interest rates on the bonds range from of 1.75 to 5.77 percent. Proceeds from the sale of the bonds were to be used to upgrade classrooms, replace portables, and construct new vocational/career tech classrooms and build a new high school in Adelanto. On May 3, 2016, the District issued General Obligation Refunding Bonds, 2016 Series A, for the purpose of refunding certain maturities of the District's General Obligation Bonds, 2008 Election, Series 2009 in the amount of \$37,545,000. At June 30, 2016, the principal balance outstanding of the 2008 General Obligation Bonds, Series A was \$43,354,227. Unamortized premium received on issuance of the bonds amounted to \$1,918,745 as of June 30, 2016.

2008 Election General Obligation Bonds, Series B

On February 26, 2013, the District issued \$36,839,953 Series B General Obligation Bonds consisting of capital appreciation bonds. The bonds have a final maturity to occur on August 1, 2052. Interest rates on the bonds range from of 1.35 to 5.90 percent. Proceeds from the sale of the bonds were to be used to effect the prepayment of the Bond Anticipation Notes (issued in 2010 and obligation satisfied in 2013), whose proceeds were applied for the purposes specified in the District bond proposition submitted in the Election of 2008, which included financing acquisition, construction, and modernization of certain District property and school facilities. At June 30, 2016, the principal balance outstanding of the 2008 General Obligation Bonds, Series B was \$42,904,921. Unamortized premium received on issuance of the bonds amounted to \$1,955,026 as of June 30, 2016.

General Obligation Refunding Bonds, 2016 Series A

On May 3, 2016, the District issued \$41,530,000 General Obligation Refunding Bonds, 2016 Series A. The bonds have a final maturity to occur on August 1, 2034. Interest rates on the bonds range from 2.00 to 5.00 percent. The bonds were issued to refund certain maturities of the District's General Obligation Bonds, 2008 Election, Series 2009 and to pay for the costs of issuance of the bonds. At June 30, 2016, the principal balance outstanding of the General Obligation Refunding Bonds, 2016 Series A was \$41,530,000. Unamortized premium received on issuance of the bonds amounted to \$1,901,794 as of June 30, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Debt Service Requirements to Maturity

The bonds mature through 2053, as follows:

Fiscal Year	Principal			Total
	Including Accreted Interest to Date	Accreted Interest	Current Interest	
2017	\$ 6,619,840	\$ 215,160	\$ 965,101	\$ 7,800,101
2018	6,374,827	570,173	1,411,650	8,356,650
2019	6,116,514	978,486	1,405,900	8,500,900
2020	26,417,259	5,767,741	1,397,100	33,582,100
2021	4,665,778	1,244,222	1,385,000	7,295,000
2022-2026	9,770,800	4,189,200	6,697,900	20,657,900
2027-2031	9,716,764	10,273,236	6,206,325	26,196,325
2032-2036	36,575,409	6,989,591	2,804,975	46,369,975
2037-2041	13,317,482	32,697,518	-	46,015,000
2042-2046	12,584,776	46,845,224	-	59,430,000
2047-2051	9,548,467	50,246,533	-	59,795,000
2052-2053	6,418,073	47,181,927	-	53,600,000
Total	<u>\$ 148,125,989</u>	<u>\$ 207,199,011</u>	<u>\$ 22,273,951</u>	<u>\$ 377,598,951</u>

Certificates of Participation

On September 29, 2005, the District issued the \$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). Interest rates on the refunding certificates range from 3.65 to 4.14 percent. The refunding certificates had a final maturity to occur on November 2021. During the year, the remaining balance of the certificates of participation outstanding was refunded with the issuance of the Refunding Certificates of Participation, 2016 Series B.

On April 28, 2016, the District issued the \$3,005,000 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 to prepay certain outstanding lease obligation of the District. Interest rates on the refunding certificates range from 2.00 to 4.00 percent. The refunding certificates have a final maturity to occur on November 2021. At June 30, 2016, the principal balance outstanding was \$3,005,000. Unamortized discount on issuance of the certificates amounted to \$343,607 as of June 30, 2016.

On April 28, 2016, the District issued the \$23,890,000 certificates of participation pursuant to a lease agreement with the Victor Valley Union High School District Financing Corporation. The proceeds of the certificates will be used to finance the costs of certain facilities of the District. Interest rates on the certificates range from 2.00 to 3.00 percent. The certificates have a final maturity to occur on November 2035. At June 30, 2016, the principal balance outstanding was \$23,890,000. Unamortized premium received on issuance of the certificates amounted to \$168,067 as of June 30, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The certificates mature through 2022, as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 1,030,000	\$ 630,508	\$ 1,660,508
2018	1,350,000	601,413	1,951,413
2019	1,390,000	577,162	1,967,162
2020	1,425,000	553,437	1,978,437
2021	1,465,000	525,738	1,990,738
2022-2026	6,235,000	2,226,319	8,461,319
2027-2031	6,880,000	1,528,500	8,408,500
2032-2036	7,120,000	481,200	7,601,200
Total	\$ 26,895,000	\$ 7,124,277	\$ 34,019,277

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$2,598,495.

Equipment Lease Financing

On May 12, 2015, the District entered into an equipment lease agreement for the acquisition of certain equipment for the Energy Conservation Measures. The terms of the agreement are semi-annual payments with a stated interest rate of 3.03 percent for a period of 12 years. The District's liability on the equipment lease financing with options to purchase is summarized below:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 559,065	\$ 112,140	\$ 671,205
2018	576,620	95,179	671,799
2019	412,182	77,459	489,641
2020	240,354	67,751	308,105
2021	256,881	60,288	317,169
2022-2026	1,526,906	174,453	1,701,359
2027-2030	269,445	5,401	274,846
Total	\$ 3,841,453	\$ 592,671	\$ 4,434,124

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Voluntary Retirement Program (VRP)

The District offered a voluntary retirement program to qualified certificated and classified employees. Eligibility requirements are that employees must be at least age 55 with 10 or more years of continuous service in the District as of June 30, 2015 and extended through June 30, 2016. VRP benefits are based on 90 percent of the STRS/PERS creditable compensation for the fiscal year. All contributions to the VRP plan will be made by the District, no employee contributions are required to participate. The District will fund the benefits over a five year period. Currently, there are 35 employees participating in this plan and the District's obligation to those retirees as of June 30, 2016, is \$2,771,715.

Year Ending June 30,	Payment
2017	\$ 444,399
2018	508,047
2019	656,179
2020	740,664
2021	422,425
Total	<u>\$ 2,771,714</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$3,292,601, and contributions made by the District during the year were \$1,347,807. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$420,619 and (\$285,196), respectively, which resulted in an increase to the net OPEB obligation of \$2,080,217. As of June 30, 2016, the net OPEB obligation was \$11,224,100. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, and the name of component unit, 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 Districts 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 \$5,690,000 as of June 30, 2016, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 75,000	\$ -	\$ -	\$ -	\$ 75,000
Stores inventories	133,799	-	-	10,253	144,052
Prepaid expenditures	39,857	-	-	-	39,857
Total Nonspendable	248,656	-	-	10,253	258,909
Restricted					
Legally restricted programs	3,796,271	-	-	2,352,579	6,148,850
Capital projects	-	23,068,333	-	9,124,400	32,192,733
Debt services	-	-	5,763,925	74,504	5,838,429
Total Restricted	3,796,271	23,068,333	5,763,925	11,551,483	44,180,012
Assigned					
Adult education program	-	-	-	75,733	75,733
Deferred maintenance program	1,857,545	-	-	-	1,857,545
Other assignments	6,409,174	-	-	-	6,409,174
Total Assigned	8,266,719	-	-	75,733	8,342,452
Unassigned					
Economic uncertainties	3,443,056	-	-	-	3,443,056
Remaining unassigned	9,554,917	-	-	-	9,554,917
Total Unassigned	12,997,973	-	-	-	12,997,973
Total	\$ 25,309,619	\$ 23,068,333	\$ 5,763,925	\$ 11,637,469	\$ 65,779,346

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Victor Valley Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 101 retirees and beneficiaries currently receiving benefits and 722 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For fiscal year 2015-2016, the District contributed \$1,347,807 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 3,292,601
Interest on net OPEB obligation	420,619
Adjustment to annual required contribution	(285,196)
Annual OPEB cost (expense)	<u>3,428,024</u>
Contributions made	<u>(1,347,807)</u>
Change in net OPEB obligation	2,080,217
Net OPEB obligation, beginning of year	<u>9,143,883</u>
Net OPEB obligation, end of year	<u><u>\$ 11,224,100</u></u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 2,640,939	\$ 1,214,900	46%	\$ 7,574,496
2015	2,683,552	1,114,165	42%	9,143,883
2016	3,428,024	1,347,807	39%	11,224,100

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2016	\$ 158,510	\$ 24,254,425	\$ 24,095,915	1%	\$ 56,161,018	43%

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

Actuarial Methods and Assumptions

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In the July 1, 2016, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 4.8 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial ten percent to an ultimate rate of four percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 22 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions, injuries to employees, life, and health of employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with High Desert Schools Joint Powers Authority for property and liability insurance coverage. Settlement claims have not exceeded the limits of this 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 2016, the District participated in the Protected Insurance Program for School Joint Powers Authority (PIPS), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the JPA. Participation in the PIPS is limited to districts that can meet the JPA's selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the JPA.

Employee Medical Benefits

The District has contracted with the Anthem Blue Cross, Blue Shield, and Kaiser Permanente to provide employee health benefits, and Delta Dental for dental benefits. Additional vision benefits are provided by Medical Eye Services and basic life insurance benefits are provided through Johnson Rooney public.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 50,535,245	\$ 16,364,563	\$ 8,945,604	\$ 5,306,653
CalPERS	20,735,093	8,590,470	6,800,657	1,868,587
Total	\$ 71,270,338	\$ 24,955,033	\$ 15,746,261	\$ 7,175,240

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalSTRS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	9.20%	8.56%
Required employee contribution rate	10.73%	10.73%
Required employer contribution rate	7.12589%	7.12589%
Required State contribution rate		

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$4,033,792.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:	
District's proportionate share of net pension liability	\$ 50,535,245
State's proportionate share of the net pension liability associated with the District	<u>26,727,574</u>
Total	<u>\$ 77,262,819</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0751 percent and 0.0617 percent, resulting in a net increase in the proportionate share of 0.0134 percent.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$5,306,653. In addition, the District recognized pension expense and revenue of \$2,070,351 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,033,792	\$ -
Net change in proportionate share of net pension liability	8,349,067	-
Difference between projected and actual earnings on pension plan investments	3,981,704	8,101,148
Difference between expected and actual experiences in the measurement of the total pension liability	-	844,456
Total	<u>\$ 16,364,563</u>	<u>\$ 8,945,604</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ (1,704,957)
2018	(1,704,957)
2019	(1,704,957)
2020	995,427
Total	<u>\$ (4,119,444)</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ 1,250,771
2018	1,250,768
2019	1,250,768
2020	1,250,768
2021	1,250,768
Thereafter	1,250,768
Total	<u>\$ 7,504,611</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.60%)	\$ 76,304,288
Current discount rate (7.60%)	50,535,245
1% increase (8.60%)	29,119,093

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) [and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$2,080,497.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$20,735,093. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.1407 percent and 0.1237 percent, resulting in a net increase in the proportionate share of 0.0170 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,868,587. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,080,497	\$ -
Net change in proportionate share of net pension liability	1,919,414	1,411,130
Difference between projected and actual earnings on pension plan investments	3,405,518	4,115,505
Difference between expected and actual experiences in the measurement of the total pension liability	1,185,041	-
Changes of assumptions	-	1,274,022
Total	<u>\$ 8,590,470</u>	<u>\$ 6,800,657</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ (520,456)
2018	(520,456)
2019	(520,456)
2020	851,381
Total	<u>\$ (709,987)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	\$ (74,381)
2018	(74,381)
2019	568,065
Total	<u>\$ 419,303</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 33,748,090
Current discount rate (7.65%)	20,735,093
1% increase (8.65%)	9,913,915

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,210,876 (7.12589 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECTS</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Hook Junior High School - Gymnasium	\$ 7,500,000	August 31, 2017
Victor Valley High School - Administration Building, Phase I	14,500,000	January 31, 2018
	<u>\$ 22,000,000</u>	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of The Protected Insurance Program for Schools (PIPS) and the High Desert Schools joint powers authorities (JPA's). The District pays an annual premium to the applicable entity for its workers' compensation and property liability coverage. The relationships between the District and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2016, the District made payments of \$2,395,898, and \$638,801 to Protected Insurance Program for Schools (PIPS), and High Desert Schools, respectively, for its workers' compensation and property and liability coverage.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 17 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2016, to conform to Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 11, Adult Education Fund, as presented in the General Fund due to consolidation, is reported as a restatement to the beginning fund balance of the Non-Major Governmental Funds. The restatement does not change the total fund balance or net position amounts reported in the District's audited financial statements.

General Fund

Fund Balance - Beginning	\$ 20,945,416
Change in accounting principles to conform to GASB Statement No. 54	(69,604)
Fund Balance - Beginning, as Restated	<u>\$ 20,875,812</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 6,707,523
Reclassification of the Adult Education Fund from the General Governmental Fund to Non-Major Governmental Funds	69,604
Fund Balance - Beginning, as Restated	<u>\$ 6,777,127</u>

NOTE 18 - SUBSEQUENT EVENT

On August 10, 2016, the District issued the General Obligation Refunding Bonds, 2016 Series B in the amount of \$52,140,000. The bonds were issued for the purpose of refunding on an advance basis, a portion of the District's outstanding Election of 2008 General Obligation Bonds 2013 Series B. The bonds have a final maturity date to occur on August 1, 2037, with interest rates ranging between 2.00 to 4.00 percent.

REQUIRED SUPPLEMENTARY INFORMATION

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VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances -</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u>
				<u>(Negative)</u>
				<u>Final</u>
				<u>to Actual</u>
REVENUES				
Local Control Funding Formula	\$ 87,843,273	\$ 88,794,442	\$ 90,912,662	\$ 2,118,220
Federal sources	11,111,424	11,485,152	7,978,660	(3,506,492)
Other State sources	8,233,334	11,558,407	11,388,816	(169,591)
Other local sources	5,531,715	5,787,216	7,796,488	2,009,272
Total Revenues ¹	<u>112,719,746</u>	<u>117,625,217</u>	<u>118,076,626</u>	<u>451,409</u>
EXPENDITURES				
Current				
Certificated salaries	38,762,313	43,420,095	40,646,241	2,773,854
Classified salaries	15,790,622	16,696,276	16,632,598	63,678
Employee benefits	23,465,371	27,509,221	27,393,503	115,718
Books and supplies	8,351,273	11,131,841	5,720,658	5,411,183
Services and operating expenditures	14,635,751	16,891,092	12,492,644	4,398,448
Capital outlay	2,068,265	3,273,355	3,401,669	(128,314)
Other outgo	346,238	487,203	688,386	(201,183)
Debt service				
Principal	-	216,198	215,267	931
Interest	-	122,919	123,850	(931)
Total Expenditures ¹	<u>103,419,833</u>	<u>119,748,200</u>	<u>107,314,816</u>	<u>12,433,384</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>9,299,913</u>	<u>(2,122,983)</u>	<u>10,761,810</u>	<u>12,884,793</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(7,828,003)</u>	<u>(7,828,003)</u>	<u>(6,328,003)</u>	<u>1,500,000</u>
NET CHANGE IN FUND BALANCE	1,471,910	(9,950,986)	4,433,807	14,384,793
Fund Balance - Beginning	20,945,416	20,945,416	20,945,416	-
Restatement	-	-	(69,604)	(69,604)
Fund Balance - Ending	<u>\$ 22,417,326</u>	<u>\$ 10,994,430</u>	<u>\$ 25,309,619</u>	<u>\$ 14,315,189</u>

¹ On behalf payments of \$2,210,876 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
March 1, 2012	\$ -	\$ 18,658,513	\$ 18,658,513	0%	\$ 41,985,287	44%
July 1, 2014	153,418	19,352,437	19,199,019	1%	50,300,811	38%
July 1, 2016	158,510	24,254,425	24,095,915	1%	56,161,018	43%

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0751%</u>	<u>0.0617%</u>
District's proportionate share of the net pension liability	\$ 50,535,245	\$ 36,048,496
State's proportionate share of the net pension liability associated with the District	<u>26,727,574</u>	<u>21,767,639</u>
Total	<u>\$ 77,262,819</u>	<u>\$ 57,816,135</u>
District's covered - employee payroll	<u>\$ 34,706,588</u>	<u>\$ 34,710,030</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>146%</u>	<u>104%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1407%</u>	<u>0.1237%</u>
District's proportionate share of the net pension liability	<u>\$ 20,735,093</u>	<u>\$ 14,048,470</u>
District's covered - employee payroll	<u>\$ 15,590,757</u>	<u>\$ 15,590,781</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>133%</u>	<u>90%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 4,033,792	\$ 3,081,945
Contributions in relation to the contractually required contribution	<u>(4,033,792)</u>	<u>(3,081,945)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 37,593,588</u>	<u>\$ 34,706,588</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
 CalPERS		
Contractually required contribution	\$ 2,080,497	\$ 1,835,188
Contributions in relation to the contractually required contribution	<u>(2,080,497)</u>	<u>(1,835,188)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 17,561,383</u>	<u>\$ 15,590,757</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

See accompanying note to required supplementary information.

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SUPPLEMENTARY INFORMATION

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VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A - Basic Grants Low Income and Neglected Reallocation Funds	84.010	14329	\$ 5,300,718
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	129,251
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	111,317
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education			
Secondary, Section 131	84.048	14894	278,540
Passed through Desert/Mountain Special Education Local Plan Area:			
Individuals With Disabilities Act (IDEA):			
Local Assistance Entitlement	84.027A	13379	1,941,084
Total U.S. Department of Education			<u>7,760,910</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	884,501
National School Lunch Program	10.555	13524	2,794,815
Summer Food Service Program	10.559	13004	40,084
Food Distribution	10.555	13524	322,300
Total Child Nutrition Cluster			<u>4,041,700</u>
Child and Adult Care Food Program	10.558	13393	242,178
Total U.S. Department of Agriculture			<u>4,283,878</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	<u>34,815</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Assistance Program Cluster:			
Medi-Cal Billing Option	93.778	10013	161,745
Medi-Cal Administrative Activities Program	93.778	10060	104,844
Total U.S. Department of Health and Human Services			<u>266,589</u>
Total Federal Programs			<u>\$ 12,346,192</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The Victor Valley Union High School District was established in 1915 and consists of an area comprising approximately 536 square miles. The District operates three junior high schools, three comprehensive high schools, one continuation high school, and alternative education programs.. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Penny Edmiston	President	2018
Timothy Norton	Vice President	2018
Barbara Dew	Clerk	2016
Timothy Hauk	Member	2018
Rosalio Hinojos	Member	2016

ADMINISTRATION

Dr. Ron Williams	Superintendent
Mr. Brian Hawkins	Assistant Superintendent, Business Services
Laurren Francoisse	Assistant Superintendent, Educational Services
R. Keith Beeman	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Amended Annual Report
Regular ADA		
Seventh and eighth	2,353.55	2,345.14
Ninth through twelfth	6,657.07	6,603.48
Total Regular ADA	<u>9,010.62</u>	<u>8,948.62</u>
Extended Year Special Education		
Seventh and eighth	2.51	2.51
Ninth through twelfth	26.96	26.96
Total Extended Year Special Education	<u>29.47</u>	<u>29.47</u>
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	8.17	7.05
Ninth through twelfth	25.53	24.80
Total Special Education, Nonpublic, Nonsectarian Schools	<u>33.70</u>	<u>31.85</u>
Extended Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.61	0.80
Ninth through twelfth	1.46	2.15
Total Special Education, Nonpublic, Nonsectarian Schools	<u>2.07</u>	<u>2.95</u>
Total ADA	<u>9,075.86</u>	<u>9,012.89</u>

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Grade Level</u>	1986-87	2015-16	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 7 - 8	54,000				
Grade 7		64,842	180	-	Complied
Grade 8		64,842	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		64,842	180	-	Complied
Grade 10		64,842	180	-	Complied
Grade 11		64,842	180	-	Complied
Grade 12		64,842	180	-	Complied

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<u>Capital Project Fund for Blended Component Units</u>
FUND BALANCE	
Balance, June 30, 2016, Unaudited Financial Statement	\$ 32,618
Increase in:	
Cash with fiscal agent	23,035,715
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 23,068,333</u>

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND				
Revenues	\$ 115,849,113	\$ 118,072,514	\$ 100,164,613	\$ 91,499,034
Other sources	-	-	4,056,720	-
Total Revenues and Other Sources	115,849,113	118,072,514	104,221,333	91,499,034
Expenditures	113,907,015	106,940,545	99,544,885	82,794,488
Other uses and transfers out	2,897,902	7,828,003	1,500,000	1,500,000
Total Expenditures and Other Sources	116,804,917	114,768,548	101,044,885	84,294,488
INCREASE IN FUND BALANCE	\$ (955,804)	\$ 3,303,966	\$ 3,176,448	\$ 7,204,546
ENDING FUND BALANCE	\$ 22,496,270	\$ 23,452,074	\$ 20,148,108	\$ 16,971,660
AVAILABLE RESERVES²	\$ 16,401,294	\$ 12,997,972	\$ 13,646,164	\$ 5,427,228
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	14.04%	11.55%	13.75%	6.44%
LONG-TERM OBLIGATIONS	N/A	\$201,060,643	\$ 171,157,871	\$ 165,619,622
K-12 AVERAGE DAILY ATTENDANCE AT P-2	9,076	9,076	8,741	8,953

The General Fund balance has increased by \$6,480,414 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$955,804 (4.1 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by \$35,441,021 over the past two years.

Average daily attendance has increased by 123 over the past two years. No change in ADA is anticipated during fiscal year 2016-2017.

¹ Budget 2017 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all funds designated for economic uncertainty contained within the General Fund.

³ On behalf payments of \$2,210,876, \$1,792,660, and \$1,849,587, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.

⁴ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2016

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Excelsior Charter (0074)	No
Options for Youth - Victor Valley (0013)	No

See accompanying note to supplementary information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Adult Education Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	\$ 310,038	\$ 2,584,187	\$ 655,699	\$ 1,581,435
Receivables	426	390,336	1,526	2,434
Stores inventories	-	10,253	-	-
Total Assets	\$ 310,464	\$ 2,984,776	\$ 657,225	\$ 1,583,869
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 169,935	\$ 18,813	\$ 2,854	\$ 5,510
Due to other funds	8,269	659,658	15,281	-
Total Liabilities	178,204	678,471	18,135	5,510
Fund Balances:				
Nonspendable	-	10,253	-	-
Restricted	56,527	2,296,052	639,090	1,578,359
Assigned	75,733	-	-	-
Total Fund Balances	132,260	2,306,305	639,090	1,578,359
Total Liabilities and Fund Balances	\$ 310,464	\$ 2,984,776	\$ 657,225	\$ 1,583,869

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
\$ 786,728	\$ 6,682,280	\$ 74,290	\$ 12,674,657
1,392	1,068	214	397,396
-	-	-	10,253
<u>\$ 788,120</u>	<u>\$ 6,683,348</u>	<u>\$ 74,504</u>	<u>\$ 13,082,306</u>
\$ 564,517	\$ -	\$ -	\$ 761,629
-	-	-	683,208
<u>564,517</u>	<u>-</u>	<u>-</u>	<u>1,444,837</u>
-	-	-	10,253
223,603	358,723	74,504	5,226,858
-	6,324,625	-	6,400,358
<u>223,603</u>	<u>6,683,348</u>	<u>74,504</u>	<u>11,637,469</u>
<u>\$ 788,120</u>	<u>\$ 6,683,348</u>	<u>\$ 74,504</u>	<u>\$ 13,082,306</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Adult Education Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
REVENUES				
Federal sources	\$ -	\$ 4,283,880	\$ -	\$ -
Other State sources	303,700	303,208	-	-
Other local sources	23,361	391,149	7,258	695,939
Total Revenues	<u>327,061</u>	<u>4,978,237</u>	<u>7,258</u>	<u>695,939</u>
EXPENDITURES				
Current				
Instruction	71,576	-	-	-
Instruction-related activities:				
Supervision of instruction	167,557	-	-	-
Instructional library, media, and technology	1,587	-	-	-
School site administration	22,488	-	-	-
Pupil services:				
Food services	-	4,918,712	-	-
Administration:				
All other general administration	-	-	-	8,055
Plant services	1,197	8,400	-	-
Facility acquisition and construction	-	-	593,415	398
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>264,405</u>	<u>4,927,112</u>	<u>593,415</u>	<u>8,453</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>62,656</u>	<u>51,125</u>	<u>(586,157)</u>	<u>687,486</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(842,248)
Other sources - proceeds from certificates of participation	-	-	-	-
Other uses - payment for refunding of debt	-	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(842,248)</u>
NET CHANGE IN FUND BALANCES	62,656	51,125	(586,157)	(154,762)
Fund Balances - Beginning	-	2,255,180	1,225,247	1,733,121
Restatement	69,604	-	-	-
Fund Balances - Ending	<u>\$ 132,260</u>	<u>\$ 2,306,305</u>	<u>\$ 639,090</u>	<u>\$ 1,578,359</u>

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 4,283,880
-	-	-	606,908
4,663	2,452	1,328	1,126,150
<u>4,663</u>	<u>2,452</u>	<u>1,328</u>	<u>6,016,938</u>
-	-	-	71,576
-	-	-	167,557
-	-	-	1,587
-	-	-	22,488
-	-	-	4,918,712
-	-	-	8,055
-	-	-	9,597
564,516	5,830	-	1,164,159
-	-	910,000	910,000
-	-	178,250	178,250
<u>564,516</u>	<u>5,830</u>	<u>1,088,250</u>	<u>7,451,981</u>
<u>(559,853)</u>	<u>(3,378)</u>	<u>(1,086,922)</u>	<u>(1,435,043)</u>
-	6,328,003	842,248	7,170,251
-	-	-	(842,248)
-	-	3,110,000	3,110,000
-	-	(3,110,000)	(3,110,000)
-	<u>6,328,003</u>	<u>842,248</u>	<u>6,328,003</u>
(559,853)	6,324,625	(244,674)	4,892,960
783,456	358,723	319,178	6,674,905
-	-	-	69,604
<u>\$ 223,603</u>	<u>\$ 6,683,348</u>	<u>\$ 74,504</u>	<u>\$ 11,637,469</u>

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 12,262,540
Medi-Cal Billing Option	93.778	83,652
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,346,192</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. 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 the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

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INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
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 (the District) as of and for the year ended June 30, 2016, 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 13, 2016.

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 Victor Valley Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Victor Valley Union High School District's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Victor Valley Union High School District in a separate letter dated December 13, 2016.

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.

Varrinck, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
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 Compliance Supplement* that could have a direct and material effect on each of Victor Valley Union High School District's (the District) major Federal programs for the year ended June 30, 2016. Victor Valley Union High School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 Victor Valley Union High School District's internal control over compliance.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Varinick, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 13, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Victor Valley Union High School District
Victorville, California

Report on State Compliance

We have audited Victor Valley Union High School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Victor Valley Union High School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Victor Valley Union High School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about 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 opinions. Our audit does not provide a legal determination of Victor Valley Union High School District's compliance with those requirements.

Basis for Qualified Opinion on After School Education and Safety Program

As described in the accompanying Schedule of Findings and Questioned Costs, Victor Valley Union High School District did not comply with requirements regarding *After School Education and Safety Program* as item 2016-001. Compliance with such requirements is necessary, in our opinion, for Victor Valley Union High School District to comply with the requirements applicable to that program.

Qualified Opinion on After School Education and Safety Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Victor Valley Union High School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Programs

In our opinion, Victor Valley Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below

CHARTER SCHOOLS:

	<u>Procedures Performed</u>
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District is a high school district and does not offer kindergarten classes. Therefore, we did not perform procedures over kindergarten compliance.

We did not perform testing over Independent Study because the ADA was below the materiality threshold required for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District is a high school district and does not offer K-3 classes. Therefore, we did not perform any procedures over K-3 Grade Span Adjustment.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based Program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Varinek, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 13, 2016

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027A</u>	<u>Individuals with Disabilities Act (IDEA)</u>
<u>10.553, 10.555, and 10.559</u>	<u>Child Nutrition Program Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	

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

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

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

After School Education and Safety Program (ASES)

2016-001 40000

Criteria or Specific Requirements

According to the California *Education Code* Section 8483(a)(1) states that "Every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program".

Condition

The District has gathered monthly summaries of student attendance for submission to the State in order to meet the semi-annual reporting requirement. However, in reviewing Lakeview Leadership Academy's monthly summary, the attendance total for the month of October 2015 did not agree to sites "Attendance Sign-in Sheets". Per audit, Lakeview Leadership Academy attendance rosters had a total of 617 students served compared to client weekly roster with 818 students served, resulting in 201 exceptions. Exceptions were deemed the difference between count per client and count per audit based on appropriate attendance documentation of students served.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, for the site tested, there were 201 out of 818 students served during the month of October 2015, for which the attendance rosters did not support amounts reported as students served.

Context

The condition identified resulted from our review of Lakeview Leadership Academy attendance records and monthly attendance summary total for the month of October 2015. Auditor selected one out of three schools for the first semi-annual reporting period dated July to December 2015.

Effect

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2015-2016 fiscal year for Lakeview Leadership Academy because the report submitted to the State reflects inaccurate attendance information.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Cause

It appears that the condition identified has materialized as a result of the site utilizing the number of students attended for a particular day rather than recounting the rosters to ensure the sites deduct those students who are not in compliance with the established District sign-in and sign-out policies. The sites did not have early release reason documented on the rosters for those students who were consistently released early from the ASES program.

Recommendation

District should inform the sites regarding their early release policy including the importance of having an early release reason documented on the rosters for students who are continually released early. Also prior to submission of attendance information to the State, the District should ensure the monthly summaries agree to the attendance summaries. An individual from the District should review and re-compute monthly attendance numbers per school site in order to verify that accurate information is being sent to the State for reporting.

Corrective Action Plan

The District has added a position for ASES attendance accounting specifically to monitor this situation and provide accurate reporting. The sites will include information for all early release students. The District will assign a management individual to review all ASES attendance reports prior to submitting them to the State. The District has instructed the school sites to reconcile all attendance reports monthly.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2015-001 30000

Criteria or Specific Requirements

Financial Statements prepared in accordance with GASB Statement No. 34, must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress".

Condition

Although the current year's capital asset additions have been captured for financial reporting purposes, the District does not have an adequate method of tracking and monitoring its capital asset activities. The following conditions were noted:

- 1) There is currently no procedure in place to properly identify equipment acquisitions above the District's capitalization threshold of \$5,000.
- 2) There is currently no procedure to track the District's on-going construction activities for the purpose of identifying cumulative costs under the "construction-in-progress" capital assets category.
- 3) There appears to be no personnel assigned to the tracking and inventorying of the District's capital assets. The District currently has access to a 3rd party fixed asset system. However, there is no personnel at the District that has been assigned to maintain the system.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the capital asset activities.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Cause

The cause of the condition identified appears to have been triggered by the recent changes in the District's business department personnel.

Recommendation

The District should consider the following actions:

- 1) Utilize the capital asset listing provided by the 3rd party vendor and have District personnel input the capital assets listing into the San Bernardino County Fixed Assets Module to ensure completeness and accuracy of the District's capital assets.
- 2) Review historical capital outlay records related to the District's modernization and new construction projects and assess the balance carried as "construction in progress". The District should dissect the cumulative "construction in progress" balance into each applicable on-going project and reduce the balance for completed projects, as necessary.
- 3) Assign/delegate District personnel with the knowledge and capability of recording, tracking, and monitoring the District's capital asset activities. Provide necessary training to designated District employee(s) to properly operate the San Bernardino Capital Assets System Module.

Current Status

Implemented.

2015-002 30000

Criteria or Specific Requirements

Timely and accurate bank reconciliations preparation and review are a prudent and necessary practice of normal business operations. Bank reconciliations are an important function of cash monitoring. The District should strive to implement procedures and assign personnel to conduct reconciliations of all cash accounts.

The District's revolving account was created for emergency or small disbursements and reimbursed periodically throughout with properly documented expenditures. The revolving account should be reconciled and recorded at the imprest amount of \$75,000 which was set by the Board Policy.

The District's clearing account should act as a holding account for monies collected at the sites and various departments. Once the District has verified that all checks collected have cleared the bank, the District should issue a check sweeping the monies in the clearing account to the County Treasurer. The clearing account should be reconciled periodically and in a timely manner since the delay would generally lead to an omission of revenue recognition.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Condition

Based on our review of the clearing account, the District has not been performing bank reconciliations of the clearing account. In addition, per California *Education Code* Section 41017, "All moneys in those banks accounts shall be paid into the county treasurer", referring to the District's clearing account. Although the current balance in the District's bank account is not a significant amount; we could not perform further testing.

Based on our review of revolving account, it appears that the District is reporting the Imprest amount in its financial statements. However, the District is not reconciling their bank balance to the Imprest amount. Consequently, the District has an unreconciled difference of \$57,404 between the bank balance and the imprest amount. After further review, we noted the reconciliations have not been performed since January 2015. In addition, auditor found two out of ten disbursements from the revolving account that did not have supporting documentation.

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of the auditor's inquiry with the District's personnel and through review of supporting documentations for cash balances reported in the District's Unaudited Actual and bank accounts listing.

Effect

The District has not performed bank reconciliations for both revolving and clearing accounts since January 2015. In addition, the District has an unreconciled difference of \$57,404 between the bank balance and the imprest amount for the revolving account.

Cause

The condition identified appears to have materialized primarily due to the lack of procedures in place. Additionally, it appears the District has had significant turnover in their accounting department in the past few years.

Recommendation

As a good business practice, the District should always perform timely bank reconciliations to ensure that all activities have been properly accounted and that there are no errors posted. Independent reviews are also an important monitoring function to ensure that bank statements are accurate and all transactions are being recorded.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Current Status

Implemented.

Federal Awards Findings

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2015-003 50000

Federal Program Affected

Title: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, 10.556, 10.559

Pass-Through Agency: California Department of Education

Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Per Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2) requires the proportion of total revenue from the sale of non-program foods to total revenue of the school food service account to be equal or greater than the proportion of total food costs associated with obtaining non-program foods to the total costs associated with obtaining program and non-program foods from the account.

Condition

During 2013-2014 fiscal year, the District's cafeteria operation did not price non-program food items high enough to ensure compliance with Title 7, Part 210, Subpart C, Section 210.14(f)(2). The ratio of non-program food cost to total food cost to non-program revenue to total food service revenue is higher as a result.

Questioned Costs

There were no direct questioned costs associated with the condition identified, but the cafeteria account needed to generate additional \$67,135 in non-program revenues to comply with the requirement.

Context

The condition was identified as a result of review of the District's non-program revenue calculation form and supporting documents.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Effect

The revenue from non-program foods is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements stated in Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2).

Cause

The condition identified appears to have materialized due to the District's lack of awareness of requirements under Title 7, Part 210, Subpart C, Section 210.14(f)(2).

Recommendation

The District should review the requirements stated in Title 7, Part 210, Subpart C, Section 210.14(f)(2) and implement a procedure to address the deficiency currently identified with the District's non-program revenue requirement. Specifically, we recommend the District incorporate the non-program calculation in its preliminary budgeting process, so they can adjust the non-program food prices as required.

Current Status

Implemented.

2015-004 50000

Federal Program Affected

Title: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, 10.559

Pass-Through Agency: California Department of Education

Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Per Title 7, Code of Federal Regulation, Part 245, Section 245.6(c)(4) states that the local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in §245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in Section 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

Condition

During the fiscal year 2014-2015, the District was not in compliance with the requirements of Title 7, Code of Federal Regulation, Part 245, Section 245.6(c)(4). We noted the District had determined incorrect eligibility status for 3 out of 22 sampled meal applications.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of auditor's review of sample of meal applications submitted by households.

Effect

The eligibility determination process is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements identified in Title 7, Code of Federal Regulation, Part 245, Section 245.6(c)(4).

Cause

The condition identified appears to have materialized due to clerical error by an employee in charge of eligibility determination process.

Recommendation

The District should ensure that it performs the eligibility determination in accordance with Title 7, Code of Federal Regulation, Part 245, Section 245.6(c)(4). To prevent future non-compliance, the District should implement an additional review process of eligibility status determination for all applications processed each year. Additionally, the information from each application should be inputted into the WebSMART system and the eligibility status determined by the system should be compared to the eligibility status determined by the District employee to ensure there are no discrepancies.

Current Status

Implemented.

2015-005 50000

Federal Program Affected

Title: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, 10.559

Pass-Through Agency: California Department of Education

Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Per Title 7, Code of Federal Regulation, Part 245, Section 245.6a(f)(7) states that local education agency shall make appropriate modifications to the eligibility determinations made initially after review of documentation provided by the household.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Condition

During 2014-2015 fiscal year, the District was not in compliance with the requirements of Title 7, Code of Federal Regulation, Part 245, Section 245.6a(f)(7). The District uses WebSMART as their primary system to store student eligibility information and as their point of sale system. The verification process involves review of supporting documentation and determination of eligibility by an employee and manual input of the determination in the WebSMART system. The three exceptions noted were due to clerical error made by an employee in charge of verification process during 2014-2015 fiscal year.

Questioned Costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of auditor's review of District's Verification summary report and Verification detail report.

Effect

The verification process is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements identified in Title 7, Code of Federal Regulation, Part 245, Section 245.6a(f)(7).

Cause

The condition identified appears to have materialized due to clerical error by an employee in charge of verification process.

Recommendation

The District should ensure that its annual verification of sampled meal applications is completed accurately in accordance with Title 7, Code of Federal Regulation, Part 245, Section 245.6a(f)(7). To prevent future non-compliance, the District should implement an additional review of verification determination made by the employee in charge of verification.

Current Status

Implemented.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

2015-006 50000

Federal Program Affected

Program Name: Title II, Part A – Improving Teacher Quality

CFDA Number: 84.367

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.35 requires grantees and subgrantees not to make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance program under Executive Order 12549, "Debarment and Suspension". Additionally, Title 2, Code of Federal Regulations, Part 180 provides guidelines to agencies on government-wide debarment and suspension requirements that must be followed.

Condition

The District's categorical program department does not have a policy to ensure compliance with Title 34 CFR, Part 80, Subpart C, Section 80.35. Specifically, the District has no method of reviewing and identifying vendors that have been awarded contracts that may be debarred or suspended.

Questioned Costs

There were no questioned costs identified since the District did not expend any of its Federal awards on debarred and/or suspended parties.

Context

The condition was identified as a result of the auditor's inquiry with District's categorical programs department personnel and through review of supporting documents.

Effect

The District has been engaging in procurement activities without verifying if the vendor is subject to debarment and/or suspension. The District currently assumes all the risk of non-compliance with requirements stated under Title 34 CFR, Part 80, Subpart C, Section 80.35 due to the lack of implemented review and monitoring procedures.

Cause

The condition identified appears to have materialized due to the District's lack of awareness of requirements under Title 34 CFR, Part 80, Subpart C, Section 80.35 and 34 CFR Part 180.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Recommendation

The District should review the requirements stated in 34 CFR, Part 80, Subpart C, Section 80.35 and implement a procedure to address the deficiency currently identified with the District's procurement process. The District should draft its procedures to conform to requirements stated in Title 2 CFR Part 180 to ensure that the District's policy is consistent with the Office of Management and Budget's Debarment and Suspension guidelines.

Current Status

Implemented.

State Awards Findings

	<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
	72000	School Accountability Report Card
2015-007	72000	

Criteria or Specific Requirements

As required by California *Education Code* Section 33126(b) (8), the School Accountability Report Card (SARC) shall include, but is not limited to, assessment of the safety, cleanliness, and adequacy of school facilities, including any need for maintenance.

Condition

The SARC among other information includes report on adequacy of school facilities which is derived from Facilities Inspection Tool (FIT). We were unable to compare the information reported on the facilities because the District could not locate the facilities inspections tools. Without being able to compare the information, we could not determine whether the information in the SARC for facilities is accurately reported.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of our inquiry with the District's Facilities and Education Services Department personnel and through review of supporting documents.

VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Effect

The District has not complied with requirements identified in California *Education Code* Section 33126 (a) which states that the SARC shall provide data including adequacy of school facilities by which a parent can make meaningful comparisons between public schools. The adequacy of school facilities reported on the SARC could not be verified for all three schools tested.

Cause

The condition identified appears to have materialized primarily due to the lack of review process. Additionally, it appears that the employee responsible for preparing the notice lacks full understanding of the requirements.

Recommendation

The District should become familiar with all the requirements identified in California *Education Code* Section 33126. The Facility Inspection Tools should be kept on file to substantiate the condition of the District's facilities as reported on the SARC. Additionally, the District should provide management oversight to employees responsible for performing key compliance requirements.

Current Status

Implemented.

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Governing Board
Victor Valley Union High School District
Victorville, California

In planning and performing our audit of the financial statements of Victor Valley Union High School District (the District) for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2016, on the government-wide financial statements of the District.

DISBURSEMENTS

Observations

During the testing of controls over disbursement procedures, we noted eleven of the 40 purchase orders/purchase requisitions reviewed was dated after the date on the invoice. This would indicate that items are being purchased prior to being pre-approved. In addition, we noted three of the 40 Pay Voucher disbursements selected were used for items that would normally be encumbered with a purchase order. Purchases included professional consulting services and architecture review services.

Recommendation

The District should take the necessary steps to ensure that all items have an authorized purchase order prior to the item being purchased to indicate the proper authorization of disbursements. Purchase orders are vital control in order to prevent unauthorized purchases of unallowable items and or determining whether there is sufficiency of funds before commitment is made. The District should also use Purchase Orders for items that could be estimated and or scheduled throughout the year. This includes professional services, food purchases, and other expenses that are necessary throughout the year. The purchase order would increase the controls over preapproval and the determination of sufficiency of funds.

VACATION ACCRUAL

Observation

We reviewed the collective bargaining unit agreement for classified staff and identified that the absolute maximum carryover of vacation for these employees is 468 hours. The maximum amount of hours allowed is dependent on the employee's number of years of service at the District. After reviewing the schedule of compensated absences (vacation accrual), we noted 43 employees that have accrued vacation at the maximum carryover limit. While the District has made efforts to reduce the vacation liability, should employees request payment, the cost of the carryover is estimated to be \$632,467 as of June 30, 2016.

Recommendation

The District should continue to encourage employees to take their earned vacation during the year. The District should continue to monitor the balances and enforce the carryover limitations.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Adelanto High School

Observations

During the testing of student body funds, the following issues were noted:

1. One of seven deposits selected for testing was not deposited in a timely manner. The deposit was made 11 days after cash had been received.
2. One of eight disbursements selected for testing was not preapproved by the student body.
3. Two fundraisers selected for testing did not have a revenue potential form. As a result, both fundraisers did not contain documentation of actual revenues and expenditures.
4. One of two ticketed events selected for testing contained a cash shortage that was not explained.
5. A physical inventory count has not been performed for items within the student store.
6. The student store contains a door that can be easily accessed by students via a connected classroom. The door cannot be locked from within the student store, allowing for students to enter even when the ASB Bookkeeper is not present.

Recommendations

1. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.

Governing Board
Victor Valley Union High School District

2. In order to maintain proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
4. Ticket sales forms should be used to document the sales activity for ticketed events. These forms should contain adequate explanations for any overages or shortages of cash received during the events.
5. A physical inventory count should be performed periodically to ensure that goods have not been misplaced or stolen. The physical inventory count should be reconciled to perpetual inventory records.
6. The site should install a lock on the door to prevent unauthorized access to cash and inventory items held in the student store.

University Preparatory School - ASB

Observations

During the testing of student body funds, the following issues were noted:

1. Two of 17 disbursements selected for testing were not preapproved by the student body.
2. For the two fundraising events selected, the revenue potential form was not fully completed; it did not have expense and net profit estimates indicated on the form.

Recommendations

1. In order to maintain proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

Governing Board
Victor Valley Union High School District

2. The ASB should require all completed revenue potential forms to be forwarded to the ASB advisor to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

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

Varinek, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 13, 2016