

VISALIA UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

**VISALIA UNIFIED SCHOOL DISTRICT
OF TULARE COUNTY
VISALIA, CALIFORNIA
JUNE 30, 2014**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jim Qualls	President	2017
Juan Guerrero	Clerk	2017
William A. Fulmer	Member	2015
Donna Martin	Member	2015
John Crabtree	Member	2017
Charles Ulmschneider	Member	2017
Lucia Vazquez	Member	2015

ADMINISTRATION

Craig Wheaton, Ed. D.	Superintendent
Tamara Ravalin	Assistant Superintendent, Human Resources Development
Robert Gröeber	Assistant Superintendent, Administrative Services
Doug Bartsch	Elementary Schools and Special Education
Todd Oto	Middle Schools, High Schools, and Educational Options

**VISALIA UNIFIED SCHOOL DISTRICT
JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	21
Statement of Net Position – Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	23
Statement of Cash Flows – Proprietary Funds.....	24
Statement of Fiduciary Net Position – Fiduciary Funds	25
Notes to Basic Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule (By Object) – General Fund.....	57
Schedule of Funding Progress – Other Postemployment Benefits	58
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Non-Major Governmental Funds.....	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds (By Object).....	62
Note to Supplementary Information	65

OTHER SUPPLEMENTARY INFORMATION SECTION

Schedule of Expenditures of Federal Awards	66
Local Education Agency Organization Structure	67
Schedule of Average Daily Attendance	68
Schedule of Instructional Time	70
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	71
Schedule of Financial Trends and Analysis	72
Schedule of Charter Schools	73
Notes to Supplementary Information	74

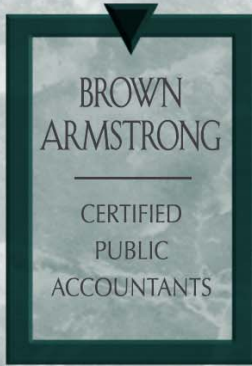
OTHER INDEPENDENT AUDITOR'S REPORTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	77
Independent Auditor's Report on State Compliance	79

FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	81
Financial Statements Findings and Questioned Costs	82
Federal Awards Findings and Questioned Costs	82
State Awards Findings and Questioned Costs	82
Summary Schedule of Prior Audit Findings	83

FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Visalia Unified School District
Visalia, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Visalia Unified School District (the District) as of and for the year ended June 30, 2014, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, 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.

MAIN OFFICE

4200 TRUXTON AVENUE

SUITE 200
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which modified the current financial reporting of those elements. Our opinion was not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis and budgetary comparison information, and schedule of funding progress on pages 4-15, 57, and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 District's basic financial statements. The combining and individual non-major fund financial statements and schedules listed in the table of contents under other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual non-major fund financial statements, the schedule of expenditures of federal awards and schedules listed in the table of contents under other supplementary information section, are the responsibility of management and were derived from and relate 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are 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 *Governmental Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
December 12, 2014

**VISALIA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of Visalia Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement Number 34. The report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

District-Wide Statements

The *District-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting, which is intended to be similar to those used by private sector companies. They provide both short-term and long-term information about the District's overall financial status. They present governmental activities and business-type activities separately, though our District does not have any business-type activities at this time. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Additionally, certain eliminations have occurred as prescribed by the statement in regard to interfund activity, payables, and receivables.

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- Governmental activities – The District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid (revenue limits) finance most of these activities.
- Business-type activities – The District does not have any activities included here, as fees the District may charge to help it cover the costs of certain services it provides (such as specific Adult School classes) do not constitute major reportable activities.

Fund Financial Statements

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental (basic services), proprietary (business-type activities), and fiduciary (assets held for others). They focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements which reports on the District as a whole.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term obligations) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – These statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. They tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending. Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements using the economic resources measurement focus and the accrual basis of accounting. They offer short- and long-term financial information about the activities that the District operates like a business.

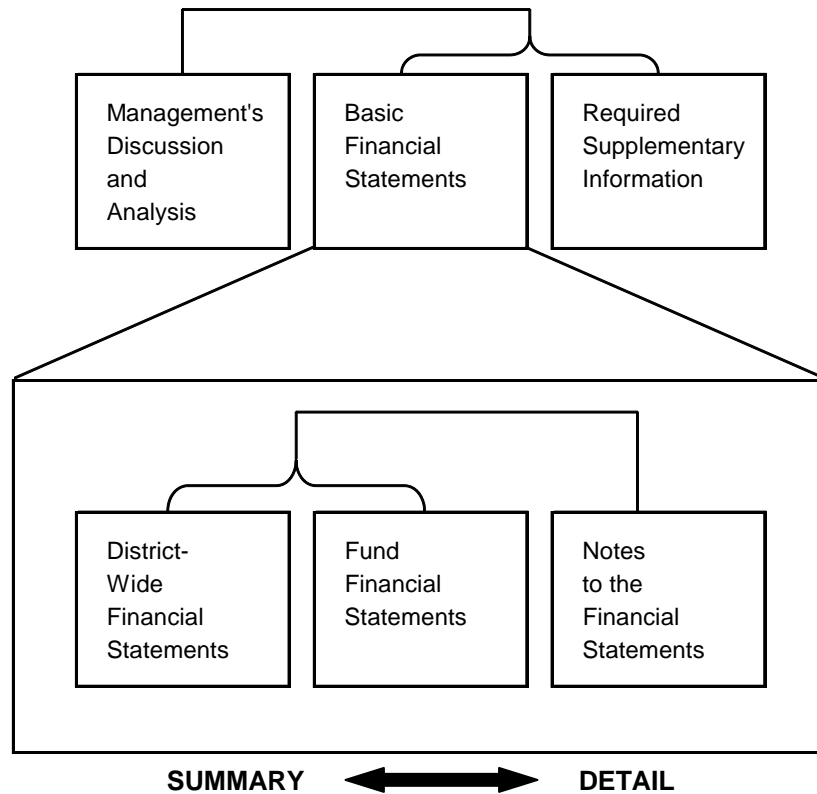
Our District does not utilize enterprise funds (one type of proprietary fund) at this time, which are the same as business-type activities. We do, however, use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the employee health and welfare insurance fund.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, in this case, the student activities (agency) funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong, which are the student bodies. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position, which only report a balance sheet and do not have a measurement focus. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information of the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Organization of the District's Annual Financial Report**



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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The 2013-14 fiscal year was a year of change for public education funding with the passage of a State budget that included the first significant change to the education funding formula in over 40 years. The Governor's Budget for 2013-14 reflected optimism, recognizing the state's economy is no longer in decline. The structural deficit had been eliminated with the passage of Proposition 30 by voters in November 2012. The following factors continue to play a significant role in the economic recovery:
 - State Unemployment Rate of 7.3% (11.8% for Tulare County)
 - UCLA Anderson forecast of slow employment growth of 1.8% and moderate personal income growth of 3.1% in 2014.
 - Housing continues to rebound with permits up significantly from prior year lows.
- The District continues to budget using very conservative revenue estimates and maintains a reserve and fund balance that enables the District to maintain fiscal solvency. The District maintains a reserve for economic uncertainty of 15% at the close of the 2013-14 fiscal year.
- The Districts overall financial condition has improved with additional revenues from the new funding formula.

- Visalia voters approved Measure E with over 67% voting YES to fund facility improvements at all of our school sites over 10 years old and to build a new middle school. The District received an A3 rating from Moody's resulting in better than estimated interest rates that will ultimately save Visalia property tax payers over \$30 million interest cost and cut 5 years from the term of the bonds.
- Overall, revenues were over \$243.2 million for the current year, as compared to overall revenues of \$225.1 million in the prior year, up by \$18.2 million or 8.09% due to changes in the funding formula.
- General Fund revenues for the current year exceeded basic expenditures by \$10 million; \$221.2 million in revenues compared to \$211.2 million in basic expenditures.
- Housing growth in the City of Visalia has shown continual growth in 2013-14; which correlates to the increase in the Districts revenues from Developer Fee Funds. Developer Fee level 2 rates for the District peaked at \$3.48 per square foot during the 2007-08 and 2008-09 fiscal years. The rate for 2013-14 was level 1 at \$2.97 per square foot and an approved increase to \$3.36 per square foot beginning April 26, 2014. The pace of new residential growth has grown significantly this year with approximately \$3.36 million in fees received. The housing market appears to be continually rebounding with permits up 44% from 2012-13.

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we report only the District's governmental activities, as the District does not have any business-type activities. All of the District's services are reported in this category, and include the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the ongoing effort to improve and maintain buildings and sites. Property taxes; state income taxes; user fees; interest income; federal, state, and local grants; as well as general obligation bonds finance these activities.

A more detailed analysis of the District's net position and changes in net position follows:

Table A-1
Net Position

(Amounts in millions)	Governmental Activities		Dollar Change	Total Percentage Change
	2014	2013	2014-2013	2014-2013
Current and other assets	\$ 156.8	\$ 164.8	\$ (8.0)	-4.85%
Capital assets (less depreciation)	268.2	251.7	16.5	6.56%
Total Assets	425.0	416.5	8.5	2.04%
Current liabilities	29.0	22.7	6.3	27.75%
Long-term liabilities	58.3	62.8	(4.5)	-7.17%
Total Liabilities	87.3	85.5	1.8	2.11%
Net position				
Net investment in capital assets	215.2	231.4	(16.2)	-7.00%
Restricted	65.0	72.7	(7.7)	-10.59%
Unrestricted	57.5	26.9	30.6	113.75%
Total Net Position	\$ 337.7	\$ 331.0	\$ 6.7	2.02%

Net position. The District's combined net position was \$337.7 million for the fiscal year ended June 30, 2014, and \$331.0 million for the fiscal year ended June 30, 2013, an increase of \$6.7 million (Table A-1). This increase in the District's financial position came from its governmental activities, and was due primarily to the increase in capital outlay and Measure E Projects.

The \$57.5 million in *unrestricted* net position of governmental activities represents the accumulated results of all past years' operations.

The results of this year's operations for the District as a whole are reported in the Statement of Activities that can be found in the Basic Financial Statements Section of this document. Table A-2 takes the information from the statement, rounds the numbers, and rearranges them slightly so the reader can see the District's total revenues for the year.

Table A-2
Changes in Net Position

(Amounts in millions)

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2014	2013	2014-2013	2014-2013
Revenues				
General revenues:				
Federal and State aid not restricted	\$ 152.8	\$ 137.9	\$ 14.9	10.80%
Charges for services	7.8	6.6	1.2	18.18%
Operating grants and contributions	44.0	43.6	0.4	0.92%
Tax revenues	34.2	32.9	1.3	3.95%
Other local sources	4.4	4.1	0.3	7.32%
Total Revenues	243.2	225.1	18.1	8.04%
Expenses				
Instruction-related	173.3	159.5	13.8	8.65%
Student support services	21.4	19.3	2.1	10.88%
Administration	9.6	8.9	0.7	7.87%
Maintenance and operations	26.3	25.2	1.1	4.37%
Other	5.3	2.2	3.1	140.91%
Total Expenses	235.9	215.1	20.8	9.67%
Excess of Revenues over Expenses	7.3	10.0	(2.7)	-27.00%
Change in Net Position	\$ 7.3	\$ 10.0	\$ (2.7)	-27.00%
Net Position Beginning	331.0	321.0	10.0	3.12%
Prior Period Adjustment	(0.6)	-	0.6	0.00%
Net Position Ending	\$ 337.7	\$ 331.0	\$ 6.7	2.02%

Changes in net position. The District's total revenues increased from \$225.1 million at June 30, 2013, to \$243.2 million at June 30, 2014, an increase of 8.04 percent (Table A-2). As mentioned earlier, the increase in revenues was primarily due to the changes in funding formula.

The total cost of all programs and services increased 9.67 percent from \$215.1 million at June 30, 2013, to \$235.9 million at June 30, 2014. The majority of the District's expenses relate to educating students (74.3 percent). The purely administrative activities of the District accounted for just 4.1 percent of total costs.

Overall, total revenues surpassed expenses, increasing net position \$7.3 million, a decrease of \$2.7 million over last year. With the cyclical challenges of the State's fiscal crises, the District will continue to work to strengthen our fiscal foundation for the years when budget deficits may decrease the District's net position.

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.

In Table A-3 below, the net cost of each of the District’s seven largest functions is presented. The 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 A-3
Net Cost of Governmental Activities**

(Amounts in millions)

	Net Cost of Services			
	2014	2013	\$ Change	% Change
Instruction	\$ 120.0	\$ 108.2	\$ 11.8	10.91%
Instruction-related activities (supervision, library, and media)	22.8	20.7	2.1	10.14%
Other pupil services	5.5	4.4	1.1	25.00%
Food services	(0.1)	(0.2)	0.1	50.00%
Pupil transportation	2.8	1.8	1.0	-55.56%
General administration	8.7	7.5	1.2	16.00%
Maintenance and operations (plant services)	19.4	23.5	(4.1)	-17.45%
Other	5.0	(1.0)	6.0	-600.00%
Totals	<u>\$ 184.1</u>	<u>\$ 164.9</u>	<u>\$ 19.2</u>	<u>11.64%</u>

Proprietary Funds – When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District’s enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District’s other programs and activities – such as the District’s Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District’s fiduciary activities are reported in separate *Statements of Fiduciary 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.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$119.8 million, while the prior year reported a balance of \$131.8 million, which is a net decrease of \$12.0 million from last year.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased by \$4.3 million.
- b. Our Building fund balance decreased by \$7.7 million with the construction using the Measure E bond funds.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final revision to the budget was adopted on September 9, 2014 (a General Fund Budgetary Comparison Schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report in the required supplementary information section).

- Revenue and expenditure revisions were made to the 2013-14 budget in order to accommodate increases in attendance percentages as well as higher enrollment figures. ADA was increased by 221.14 ADA during the year.
- State revenues were increased by \$15.5 million during the year due to implementation of the 2013-14 Local Control Funding Formula (LCFF).
- Salaries and benefits increased as a result of negotiated settlements with all employee groups which included a 2% salary increase on the salary schedules and two 1% off-schedule payments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the total net capital assets totaled \$251.7 million. At June 30, 2014, the total net capital assets totaled \$268.2 million. This amount represents a net increase (including additions, deductions, and depreciation) of \$16.5 million, or 6.56 percent, from last year. In November 2012, the voters of Visalia approved Measure E, a \$60.1 million bond issue to fund facility improvements at all of our school sites over 10 years old and build a new middle school. These projects began in 2012-13 and will continue for the next five years.

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

(Amounts in millions)

	Governmental Activities		Total Dollar Change 2014-2013	Total Percentage Change 2014-2013
	2014	2013		
Land	\$ 16.3	\$ 17.2	\$ (0.9)	-5.23%
Construction in progress	18.9	25.9	(7.0)	-27.03%
Buildings and improvements	222.2	198.9	23.3	11.71%
Equipment	10.8	9.7	1.1	11.34%
Totals	\$ 268.2	\$ 251.7	\$ 16.5	6.56%

Long-Term Obligations

At the end of this year, the District had \$64.8 million in long-term obligations outstanding versus \$69.3 million last year, a decrease of \$4.5 million due the District making payments on current debt. The District's obligations consisted of:

Table 5
Outstanding Debt at Year-end

(Amounts in millions)

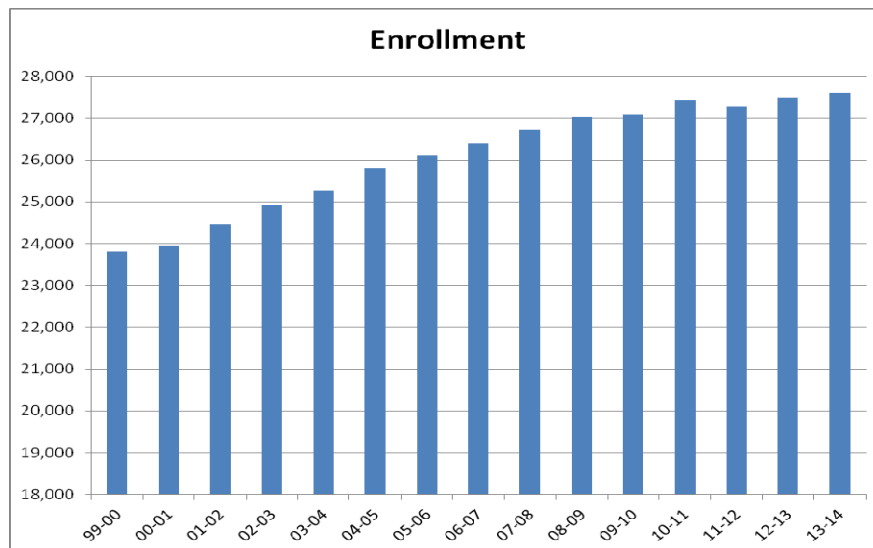
	Governmental Activities		Total Dollar Change 2014-2013	Total Percentage Change 2014-2013
	2014	2013		
General obligation bonds	\$ 44.1	\$ 47.6	\$ (3.5)	-7.35%
Certificates of participation	5.9	6.8	(0.9)	-13.24%
Capitalized lease obligations	2.8	3.4	(0.6)	-17.65%
Loan payable	0.2	-	0.2	100.00%
Other postemployment benefits liability	10.8	10.5	0.3	2.86%
Other	1.0	1.0	-	0.00%
Totals	\$ 64.8	\$ 69.3	\$ (4.5)	-6.49%

The District's general obligation bond rating continues to be stable (currently A+). The State limits the amount of general obligation debt that District's can issue per Education Code Section 15106 to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$44.1 million is well below the statutorily-imposed limit of approximately \$235 million.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), and other long-term obligations. We present more detailed information regarding our long-term liabilities in the Notes to the Financial Statements.

STUDENT ENROLLMENT

The District continues to experience growth in enrollment in elementary grades; however, with the increase in charter schools within the District boundary that trend may stabilize as more parents and students are seeking alternatives to traditional schools as they get to high school. The District recognized a slight enrollment increase of 115 students to 27,603. Additionally, the District's CBEDS to P2 ADA ratio remains above the State average at 88.34%.



SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

The Governor’s 2013-14 Budget eliminated revenue limits while implementing the Local Control Funding Formula (LCFF). With the implementation of LCFF, revenue limits and most categorical program funding was replaced with base grants per pupil, plus supplemental funding provided via percentage “weights” for students that are not English language proficient, who are from low-income families, or who are in foster care.

A condition of the new LCFF is a requirement that school districts develop a Local Control Accountability Plan (LCAP). The LCAP is a three-year plan that includes goals for all pupils and subgroups to be achieved for eight priorities identified by the state and for any local priorities. The LCAP must align with the districts annual budget for 2014-15.

The LCAP includes a description of annual goals based on the eight state priorities for all students and sub-groups. Subgroups have been defined as any group of 30 or more students with valid test scores. A list and description of expenditures that are used to implement specific actions for each year is included in the plan. In addition, the plan includes a list and description of expenditures that serve the ‘unduplicated’ students.



Federal reporting of the Adequate Yearly Progress (AYP) and State reporting of the Academic Performance Index (API) were curtailed in the 2013-14 academic year as schools throughout the state and nation transition to Common Core standards. The transition to Common Core State Standards began a few years ago with investigation, discussion, and planning. The 2013-14 academic year was the final year marking the end of implementing California State Standards (CST) in English Language Arts and Mathematics, and the beginning of implementation for the Common Core State Standards during the 2014-15 academic year in those subject areas. The 2012-13 academic year was the last of the paper-pencil administered state test in English Language Arts and Mathematics. Many parts of the nation, California, and Visalia Unified, transitioned to assessing students using an online system. The technological endeavor manifested itself in VUSD with the purchase and implementation of approximately 5,000 Chrome Book stations distributed throughout 35 school sites on approximately 142 computer cards. The technological enhancement that took place district-wide during the 2013-14 school year will support instructional approaches that enable broader student access to electronic resources that are becoming increasingly accessible through on-line portals provided by educational vendors.

The District has been able to set aside funding for Other Post Employment Benefits (OPEB) to address the significant liability in retiree health care costs in the future. The District began placing funds in a trust account during 2013-14. As one-time dollars are available they are set aside for this future liability.

The District has maintained Positive Certifications on all Budget and Interim reports and maintains a reserve balance adequate to withstand future State fiscal challenges. The Districts credit rating was affirmed as A+ by Standard and Poor’s, and received a higher rating by Moody’s of an Aa3, citing the Districts “solid financial position and improved balance sheet, characterized by operating surpluses resulting in strong fund balances and a healthy ending cash position”.

Measure E is in full swing with planning, design, and construction. One major project that was completed at the end of fiscal year 2013-2014 was the solar installation at 12 sites. The panels are producing electricity and the District is receiving energy credits on the electricity bill.

The beginning of summer saw the start of several projects to be completed prior to the start of school. In the fall of 2015, playground improvements at Ivanhoe, Elbow Creek, Houston, Mountain View, and Golden Oak will provide for new equipment for those sites. Security improvements at Elbow Creek, Mineral King, Mountain View, Hurley, Linwood, La Joya, and El Diamante (not Measure E funded) will provide single points of entry into each campus while reducing the amount of chain link fencing out in front of the campus. This will allow the site to check in each visitor while enhancing the curb appeal.

Redwood High School saw the start of the fire alarm upgrade project in June. This project consists of a new fire alarm system that will run over the existing fiber optic network.

Two major projects in the design stage took one step closer to construction. The Redwood High School Two-Story Academic Building was approved by Division of State Architects (DSA) and put out to bid in June. The 16 classroom academic building will be complete in time for the start of the FY 2015-16 school year. Increment One of the NW Middle School was submitted to DSA for approval as well. Site work is scheduled to be put out to bid once DSA approves the plans, with construction starting at the end of the 2015 summer.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

This year marks the first year of implementation of our new State funding system, the Local Control Funding Formula or LCFF. This is the first major change in school funding in over 40 years. The LCFF creates base, supplemental, and concentration grants in place of most previously existing K-12 funding streams, thus eliminating revenue limits and approximately three-quarters of state categorical programs.

The 2014-15 State Budget includes the largest year-over-year increase in education funding in recent history, yet California is still well below the national average in per student funding and we are just now back to the funding levels of 2007-08.

Since the Great Recession of 2008, the District made reductions to keep pace with shrinking revenues from the State. Class sizes in our lower grades increased and whole programs that supported our students and provided opportunities to improve and enhance the educational program were eliminated by state flexibility of restricted dollars. Yet over that same time frame we have managed to maintain a focus on instruction and each year our students have performed better as we continue to make academic gains and graduate more students. We look forward to making restorations and continuing to place a priority on student achievement.

Highlights of the VUSD 2014-15 Budget include:

- Implementation of the Local Control and Accountability Plan using supplemental and concentration (targeted) funds to improve services across the District by expanding student opportunities for learning, engaging communities through Student Advocate & Family Engagement specialist, after-school enrichment and behavior support and intervention.
- Phase I implementation of Linked Learning Academies at Golden West (Ag Engineering) and Mt Whitney (Health Science) high schools. Linked Learning Academies will be implemented at each of the four comprehensive high schools and VTEC over the next two years with open enrollment at all sites in the Fall 2015.
- Continued planning of Measure E projects and construction of the Academic building at Redwood, site development of the new middle school and modernization projects throughout the District.

The District continues to budget conservatively and the key assumptions in our revenue forecast are:

1. Regular Average Daily Attendance (ADA) from 2013-14 P-2 K-12 with zero projected growth for 2014-15 is budgeted at 26,425.48.
2. A zero COLA increase and/or reduction on all State programs.
3. State Lottery is projected to be \$156.00 per ADA, of which \$30.00 is restricted to instructional materials, and \$126.00 is unrestricted.

Expenditures are based on the following assumptions:

1. Step increases for certificated, management, and classified are budgeted in full at \$2.0 million.
2. Health care costs per employee will be shared by the District and employee as negotiated. The annual cost of health care coverage will be \$14,922 per certificated employee, \$13,878 per management employee, and either \$13,485 or \$13,893 per classified employee depending on the option selected. The District will pay \$13,301 per certificated employee, \$13,485 per management and classified employee.
3. Routine Restricted Maintenance Account is funded at 3% of total General Fund expenditures.
4. Contributions to restricted programs to cover projected encroachment will be \$21.2 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Administrative Services, at Visalia Unified School District, 5000 West Cypress Avenue, Visalia, California 93277, or e-mail at rgroeber@vusd.org.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Investments	\$ 118,395,249
Accounts Receivable	38,041,835
Stores Inventory	374,100
Prepaid Expenses	10,400
Land	16,315,817
Buildings and Improvements	331,454,929
Equipment	30,124,429
Construction in Progress	18,854,543
Less: Accumulated Depreciation	<u>(128,517,224)</u>
TOTAL ASSETS	<u>425,054,078</u>
<u>LIABILITIES</u>	
Accounts Payable and Other Accrued Liabilities	19,147,754
Accrued Interest Payable	649,732
Advances from Grantors	2,680,035
Long-Term Liabilities:	
Due Within One Year:	
Certificates of Participation Payable	1,060,000
Bonds Payable	4,850,119
Capital Leases Payable	597,874
Due After One Year:	
Certificates of Participation Payable	4,820,000
Bonds Payable	39,297,166
Capital Leases Payable	2,173,755
Compensated Absences Payable	1,001,573
Loan Payable	210,000
Other Postemployment Benefits Liability	<u>10,836,566</u>
TOTAL LIABILITIES	<u>87,324,574</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	215,223,580
Restricted for:	
Educational Programs	14,547,792
Capital Projects	33,411,099
Debt Service	9,000,524
Special Revenues	8,042,632
Unrestricted	<u>57,503,877</u>
TOTAL NET POSITION	<u>\$ 337,729,504</u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues		Net (Expense) and Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 144,880,675	\$ 804,143	\$ 24,106,448	\$ -
Instruction-Related Services:				
Supervision of Instruction	7,331,283	114,566	4,756,902	-
Instructional Library, Media, and Technology	1,814,811	-	235,470	-
School Site Administration	19,282,748	1,797	456,785	-
Pupil Services:				
Home-to-School Transportation	4,010,276	789,688	432,390	-
Food Services	10,386,299	1,825,065	8,691,142	-
All Other Pupil Services	6,954,479	298,056	1,117,599	-
General Administration:				
Centralized Data Processing	2,499,636	22,984	11,974	-
All Other General Administration	7,120,934	128,335	776,592	-
Plant Services	23,266,819	2,087,602	1,774,583	-
Ancillary Services	3,057,134	-	714,551	-
Enterprise Activities:				
Interest on Long-Term Debt	1,551,351	-	-	-
Other Outgo	3,756,630	1,712,480	891,981	-
Totals	\$ 235,913,075	\$ 7,784,716	\$ 43,966,417	\$ -

General Revenues:

Taxes and Subventions:

Taxes Levied for General Purposes	29,557,814
Taxes Levied for Debt Service	3,773,396
Taxes Levied for Other Specific Purposes	925,620
Federal and State Aid Not Restricted to Specific Purposes	152,871,849
Interest and Investment Earnings	1,262,053
Interagency Revenues	42,726
Gain on Sale of Assets	688,934
Miscellaneous	2,450,894

Total General Revenues 191,573,286

Change in Net Position 7,411,344

Net Position Beginning, as restated 330,318,160

Net Position Ending \$ 337,729,504

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

FUND FINANCIAL STATEMENTS

**VISALIA UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Capital Facilities Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Investments	\$ 58,003,664	\$ 4,122,968	\$ 20,250,949	\$ 15,295,735	\$ 97,673,316
Receivables	36,110,027	63,355	-	1,864,946	38,038,328
Due from Other Funds	3,559,082	-	5,783,004	6,761,709	16,103,795
Prepaid Expenses	10,400	-	-	-	10,400
Stores Inventory	210,300	-	-	163,800	374,100
TOTAL ASSETS	\$ 97,893,473	\$ 4,186,323	\$ 26,033,953	\$ 24,086,190	\$ 152,199,939
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts Payable	\$ 11,883,348	\$ 96,725	\$ 581,981	\$ 1,052,367	\$ 13,614,421
Due to Other Funds	14,009,674	-	-	2,093,963	16,103,637
Advances from Grantors	2,652,860	-	-	27,175	2,680,035
TOTAL LIABILITIES	28,545,882	96,725	581,981	3,173,505	32,398,093
FUND BALANCES					
Nonspendable	261,866	-	-	163,800	425,666
Restricted	14,547,792	4,089,598	25,451,972	14,158,267	58,247,629
Committed	10,021,507	-	-	6,590,618	16,612,125
Assigned	7,221,631	-	-	-	7,221,631
Unassigned	37,294,795	-	-	-	37,294,795
TOTAL FUND BALANCES	69,347,591	4,089,598	25,451,972	20,912,685	119,801,846
TOTAL LIABILITIES AND FUND BALANCES	\$ 97,893,473	\$ 4,186,323	\$ 26,033,953	\$ 24,086,190	\$ 152,199,939

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

**VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Governmental Funds	\$ 119,801,846
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 the assets is \$396,749,718, and the accumulated depreciation is \$128,517,224.	268,232,494
An internal service fund is used by the District's management to charge the costs of workers' compensation and health insurance claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	15,191,949
Accrued interest payable represents interest incurred, but is not yet due, as of the end of the fiscal year. Governmental funds recognize interest payable when due since this requires the use of current financial resources.	(649,732)
Bond issuance premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amount of unamortized bond issuance premium on the statement of net position are:	(2,936,133)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
General Obligation Bonds	(41,211,152)
Certificates of Participation	(5,880,000)
Capital Leases Obligations	(2,771,629)
Compensated Absences	(1,001,573)
Loan Payable	(210,000)
Other Postemployment Benefits Liability	(10,836,566)
	(10,836,566)
Total Net Position - Governmental Activities	\$ 337,729,504

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Capital Facilities Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue Limit Sources:					
State Apportionments	\$ 177,195,328	\$ -	\$ -	\$ -	\$ 177,195,328
Federal Revenues	14,957,116	-	-	8,975,245	23,932,361
Other State Revenues	12,764,746	-	-	2,319,534	15,084,280
Other Local Revenues	16,304,971	3,361,702	242,760	6,514,084	26,423,517
TOTAL REVENUES	221,222,161	3,361,702	242,760	17,808,863	242,635,486
EXPENDITURES					
Instruction	132,879,850	-	-	4,229,094	137,108,944
Instruction-Related Services	25,043,900	-	-	1,313,467	26,357,367
Pupil Services	10,828,024	-	-	10,716,986	21,545,010
Ancillary Services	2,890,981	-	-	-	2,890,981
General Administration	8,671,956	66,504	-	578,256	9,316,716
Plant Services	27,007,643	5,200,312	13,684,934	3,763,220	49,656,109
Other Outgo	3,875,470	-	-	5,762,370	9,637,840
TOTAL EXPENDITURES	211,197,824	5,266,816	13,684,934	26,363,393	256,512,967
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,024,337	(1,905,114)	(13,442,174)	(8,554,530)	(13,877,481)
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	-	-	-	210,000	210,000
Transfers In	2,200,000	-	5,783,004	9,315,845	17,298,849
Transfers Out	(16,571,060)	-	-	(727,789)	(17,298,849)
Other Sources	-	1,699,657	-	-	1,699,657
TOTAL OTHER FINANCING SOURCES (USES)	(14,371,060)	1,699,657	5,783,004	8,798,056	1,909,657
Net Change in Fund Balances	(4,346,723)	(205,457)	(7,659,170)	243,526	(11,967,824)
Fund Balances at Beginning of Year	73,694,314	4,295,055	33,111,142	20,669,159	131,769,670
Fund Balances at End of Year	\$ 69,347,591	\$ 4,089,598	\$ 25,451,972	\$ 20,912,685	\$ 119,801,846

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

**VISALIA UNIFIED 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, 2014**

Total Net Change in Fund Balances - Governmental Funds \$ (11,967,824)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Depreciation Expense	\$ (10,489,462)	
Capital Outlays	<u>27,992,673</u>	17,503,211

Proceeds from the disposal of capital assets are reported as revenue in the governmental funds, but only the gain or loss is reported in the statement of activities. This is the difference between the proceeds and the resulting gain or loss.

(1,010,724)

Amortization of bond issuance premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt.

Amortization of premium for the period is:

437,459

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium and debt issuance costs were:

(210,000)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statements of activities:

General Obligation Bonds	3,380,000	
Capital Lease Obligations	585,153	
Certificates of Participation	960,000	

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in accrued interest payable		(649,732)
Change in accreted balance		(416,181)

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 of accounting. This year, the difference between OPEB costs and actual employer contributions was:

(318,043)

Compensated absences are measured by the amounts paid during the period in governmental funds. In the statement of activities, compensated absences are measured by the amounts earned:

(561)

An internal service fund is used by the District's management to charge the costs of workers' compensation and health insurance claims to the individual funds. The net income of the internal service fund is reported with governmental activities:

(881,414)

Change in Net Position of Governmental Activities

\$ 7,411,344

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	<u>Governmental Activities - Internal Service Fund</u>
<u>ASSETS</u>	
Current Assets	
Cash and Investments	\$ 20,721,933
Receivables	<u>3,507</u>
Total Assets	<u>20,725,440</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	5,533,333
Due to other funds	<u>158</u>
Total Current Liabilities	<u>5,533,491</u>
 <u>NET POSITION</u>	
Restricted	1,380,775
Unrestricted	<u>13,811,174</u>
Total Net Position	<u><u>\$ 15,191,949</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Governmental Activities - Internal Service Fund</u>
<u>OPERATING REVENUES</u>	
Charges to Other Funds and Miscellaneous Revenues	<u>\$ 35,037,750</u>
Total Operating Revenues	<u>35,037,750</u>
<u>OPERATING EXPENSES</u>	
Payroll Costs	212,906
Professional and Contract Services	35,794,853
Supplies and Materials	<u>1,513</u>
Total Operating Expenses	<u>36,009,272</u>
Operating Loss	(971,522)
<u>NONOPERATING REVENUES</u>	
Interest Income	<u>90,108</u>
Total Nonoperating Revenues	<u>90,108</u>
Change in Net Position	(881,414)
Total Net Position - Beginning	<u>16,073,363</u>
Total Net Position - Ending	<u><u>\$ 15,191,949</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Governmental Activities - Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from User Charges	\$ 35,048,333
Payments to Employees	(212,906)
Payments to Suppliers	<u>(34,134,229)</u>
Net Cash Provided by Operating Activities	<u>701,198</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to Other Funds	<u>158</u>
Net Cash Provided by Noncapital Financing Activities	<u>158</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>90,108</u>
Net Cash Provided by Investing Activities	<u>90,108</u>
Net Increase in Cash and Investments	791,464
Cash and Investments at Beginning of Year	<u>19,930,469</u>
Cash and Investments at End of Year	<u><u>\$ 20,721,933</u></u>
Reconciliation of Operating Income to	
Net Cash Provided by Operating Activities:	
Operating Income	\$ (971,522)
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Net Change in Assets and Liabilities:	
Accounts and Interest Receivable	10,583
Accounts Payable	<u>1,662,137</u>
Net Cash Provided by Operating Activities	<u><u>\$ 701,198</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency Funds</u>
ASSETS	
Deposits and Investments	<u>\$ 9,542,391</u>
Total Assets	<u><u>\$ 9,542,391</u></u>
LIABILITIES	
Due to Student Groups	<u>\$ 9,542,391</u>
Total Liabilities	<u><u>\$ 9,542,391</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Visalia Unified School District (the District) was organized in 1885 and became unified on July 1, 1966, under the laws of the State of California. The District operates under a locally-elected, seven-member Governing Board (the Board) form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District governs twenty-five elementary schools, a newcomer language center, four middle schools, four comprehensive high schools, a continuation high school, an adult school, a charter alternative academy, a charter independent study school, a K-8 charter home school, a charter technical education school, and a school that serves orthopedic handicapped students.

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 Visalia Unified School District, this includes general operations, food service, and student related activities of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may 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 discussed below are reported in the District's financial statements because of their relationship with 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 boards of the component units are essentially the same as the Board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District and the administration of the charter schools.

Facilities Corporation: The Visalia Unified School District Financing Corporation's (the Corporation) financial activity is presented in the financial statements as a Capital Projects Fund and a Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

Charter School: The District has approved charters for the Charter Home School Academy, Charter Alternatives Academy, Charter Independent Study, and Visalia Technical Education Center charter schools pursuant to Education Code Section 47605. The Charter Home, Charter Alternatives Academy, Charter Independent Study, and Visalia Technical Education Center charter schools are operated by the District, and their financial activities are presented in the District's General Fund. The District receives revenue on behalf of the Charter Home, Charter Alternatives Academy, Charter Independent Study, Visalia Technical Education Center charter schools. This activity is accounted for in the General Fund as site contributions for each of the four charter schools.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with five public entity risk pools and one Joint Powers Agency. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

Schools Excess Liability Fund
Self-Insured Schools of California III
Tulare County Schools Insurance Group
Tulare County School Districts' Self-Insurance Authority
Nor-Cal Relief
Visalia Civic Facilities Authority

D. Basis of Presentation – Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California. Now grouped with the General Fund, the Special Reserve for Postemployment Benefits Fund is used to accumulate funds set aside by the governing board for funding future health and welfare benefits.

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds and the acquisition of major governmental capital facilities and buildings.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. **Basis of Presentation – Fund Accounting** (Continued)

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

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

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

Debt Service Fund The Debt Service Fund is used to track the accumulation of funds to pay the District's Tax Revenue Anticipation Notes and Certificates of Participation.

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

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund is used to account for funds set aside for Board designated construction projects.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance Program that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is agency funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency Fund accounts for student body activities (ASB) and the revolving cash clearing accounts for the general and payroll warrants.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting – Measurement Focus

Government-Wide Financial Statements The government-wide financial statements include the financial activities of the overall government, except for fiduciary activities. 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, and program revenues 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 or business segment 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 use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results 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 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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances 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 and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting – Measurement Focus (Continued)

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 of accounting when the exchange takes place. On a modified accrual basis of accounting, 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 45 or 60 days. However, to achieve comparability of reporting among California Local Education Agencies (LEA) 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 LEAs 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 requirements. On a modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows and Inflows Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows and inflows of resources.

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The government has no items which qualify for reporting in this category.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. The government has no items which qualify for reporting in this category.

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. 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 the County of Tulare treasury balances for purposes of the statement of cash flows.

G. Investments

Investments held at June 30, 2014, 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 of Tulare and Self-Insured Schools of California (SISC) investment pools are determined by the program sponsor.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Debt Service Fund represent cash and cash equivalents required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the Certificates of Participation.

I. Stores Inventory

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 when used.

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment and \$15,000 for buildings and improvements. 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.

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.

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

K. 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.

L. 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 as a long-term obligation. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Payables, Accrued Liabilities, and Long-Term Obligations

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

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

N. Deferred Issuance Costs, Premiums, and Discounts

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

Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, debt issuance costs should be recognized as an expense in the period incurred. The District has recorded a prior period adjustment for debt issuance costs related to prior years. Refer to Note 15 for a detail of the prior period adjustment.

O. Fund Balance

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – Amounts that are not in spendable form (such as inventory) or are required to maintain intact.
- *Restricted fund balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (the Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* – Amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board of Directors or by an official or body to which the Board delegates the authority.
- *Unassigned balance* – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The District's Board establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balance (Continued)

Authority to Commit Funds

The District's Board serves as the District's highest level of decision-making authority and will have sole authority for establishing constraints on the use of governmental fund balances classified as Committed. Formal Board action to establish, modify, or rescind fund balance commitments will require either Board approved policy designations or a majority approved resolution acted on before June 30 of each fiscal year. Committed funds cannot be used for any other purpose unless likewise modified by formal action of the Board. The Committed amount subject to the constraint may be determined after June 30.

This policy does hereby commit all Senate Bill, 3rd Extension (SBX3) 4 Flex Funding and Unassigned Fund Balances in the following funds for the identified purposes:

Fund 110 Adult Education Fund – Committed for the purpose of adult education programs.

Fund 140 Deferred Maintenance Fund – Committed for the purpose of deferred maintenance expenditures as enumerated under Education Code Section 17582 (a).

Additionally, this policy does hereby commit all Unassigned Fund Balances in the following funds for the identified purposes:

Fund 200 Special Reserve Fund for Postemployment Benefits – Committed for the purpose of payment of Other Postemployment Benefits obligations of the District.

Fund 400 Special Reserve Fund for Capital Outlay Projects – Committed for the purpose of Capital Outlay and Modernization projects.

Authority to Assign Funds

The Board hereby grants authority for the assignment of funds to the Superintendent and the Assistant Superintendent of Administrative Services as designees of the Board in indentifying intended uses of funds and so assigning residual balances. Any such assignments will be presented at regular financial and budget reporting periods including the year-end unaudited actuals. Board action to approve such financial and budget reports will represent ratification of any such assignments.

The Board may also, from time to time, determine the need to assign funds for an intended use. Any such assignments will be documented by Board action at a regularly scheduled meeting.

Order of Expenditure of Funds

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, Restricted Fund Balance will be considered to have been spent first.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, Committed amounts should be reduced first, followed by Assigned amounts, and then Unassigned amounts.

Minimum Unassigned Fund Balance

Unassigned Fund Balance is the residual amount of fund balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balance (Continued)

Minimum Unassigned Fund Balance (Continued)

The District is determined to maintain a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted one-time expenditures. Therefore, the District will maintain an Unassigned Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than prescribed for fiscal solvency review purposes pursuant to Education Code Section 33127. In the event that the balance drops below the established minimum level, the District's Board will develop a plan to replenish the fund balance to the established minimum level within two years.

The District will not establish the more restrictive Stabilization Arrangement under the Committed Fund Balance classification.

P. Net Position

Net position represents the difference between assets and liabilities. Net 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 its 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 statement reports \$65,002,047 of restricted net position, of which \$14,547,792 is restricted by enabling legislation.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are employer and employee contributions for benefit coverage. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

R. 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 and nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

S. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Budgetary Data

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

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

U. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15 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 Tulare bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

V. New Accounting Pronouncements

During the fiscal year ending June 30, 2014, the District implemented the following standards:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The District implemented this change for the fiscal year ended June 30, 2014.

GASB Statement No. 66 – *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

W. Future Pronouncements

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The District has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

W. Future Pronouncements (Continued)

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The District has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The provisions of this statement will be applied simultaneously with the provisions of GASB Statement No. 68.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 118,395,249
Fiduciary funds	<u>9,542,391</u>
Total Deposits and Investments	<u><u>\$ 127,937,640</u></u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 50,141
Cash in revolving accounts	41,166
Investments	<u>127,846,333</u>
Total Deposits and Investments	<u><u>\$ 127,937,640</u></u>

Policies and Practices

The District is authorized under the 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, or obligations with first priority security; and collateralized mortgage obligations.

Investments in Tulare 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 the Tulare 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 Tulare 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 Tulare County Treasurer, which is recorded on the amortized cost basis of accounting.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**General Authorizations**

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligation	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	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

Interest Rate Risk

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

Investment in the Self-Insured Schools of California Investment Pool – The District is a voluntary participant in the SISC that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by SISC for the entire SISC portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SISC, which is recorded on the amortized cost basis of accounting.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Segmented Time Distribution

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

Investment Type	Fair Value	Remaining Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
SISC Insurance Pool	\$ 7,539,576	\$ 7,539,576	\$ -	\$ -	\$ -
Restricted Cash with Fiscal Agent/Trust	2,064,156	2,064,156	-	-	-
Tulare County Pool	118,242,601	118,242,601	-	-	-
Totals	<u>\$ 127,846,333</u>	<u>\$ 127,846,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	AA	Not Rated
SISC Insurance Pool	\$ 7,539,576	N/A	\$ -	\$ -	\$ -	\$ 7,539,576
Restricted Cash with Fiscal Agent/Trust	2,064,156	N/A	-	-	-	2,064,156
Tulare County Pool	118,242,601	N/A	-	-	-	118,242,601
Totals	<u>\$ 127,846,333</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,846,333</u>

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 as follows:

Issuer	Investment Type	Reported Amount
Self-Insured Schools of California	Insurance Investment Pool	\$ 7,539,576
Restricted Cash with Fiscal Agent	Restricted Cash	2,064,156
		<u>\$ 9,603,732</u>

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**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 fair value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As a result, the District's deposits with financial institutions in the amount of \$31,912 were fully insured as of June 30, 2014.

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the total investments in U.S. Bank, Government Financial Strategies Inc., and Self-Insured Schools of California of \$7,539,576, the District has a custodial credit risk exposure of \$7,539,576 because the related securities are uninsured, unregistered, and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	Governmental Funds					Total Governmental Funds
	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	
Federal Government:						
Categorical aid	\$ 6,417,720	\$ -	\$ 1,576,579	\$ 7,994,299	\$ -	\$ 7,994,299
State Government:						
Categorical aid	26,731,448	-	284,343	27,015,791	-	27,015,791
Lottery	475,791	-	-	475,791	-	475,791
Total State	27,207,239	-	284,343	27,491,582	-	27,491,582
Local:						
Other local sources	2,485,068	63,355	4,024	2,552,447	3,507	2,555,954
Total Accounts Receivable	\$ 36,110,027	\$ 63,355	\$ 1,864,946	\$ 38,038,328	\$ 3,507	\$ 38,041,835

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Current Year Adjustments	Balance June 30, 2014
Governmental Activities					
Capital Assets Not Being Depreciated					
Land	\$ 17,169,964	\$ -	\$ (854,147)	\$ -	\$ 16,315,817
Construction in progress	25,905,123	14,070,195	(21,120,775)	-	18,854,543
Total Capital Assets Not Being Depreciated	43,075,087	14,070,195	(21,974,922)	-	35,170,360
Capital Assets Being Depreciated					
Buildings and improvements	299,469,882	31,935,756		49,291	331,454,929
Furniture and equipment	27,700,146	2,901,838	(477,555)	-	30,124,429
Total Capital Assets Being Depreciated	327,170,028	34,837,594	(477,555)	49,291	361,579,358
Less Accumulated Depreciation					
Buildings and improvements	(100,574,028)	(8,629,875)	-	(207)	(109,204,110)
Furniture and equipment	(17,931,080)	(1,859,587)	477,555	(2)	(19,313,114)
Total Accumulated Depreciation	(118,505,108)	(10,489,462)	477,555	(209)	(128,517,224)
Governmental Activities Capital Assets, Net	\$251,740,007	\$38,418,327	\$ (21,974,922)	\$ 49,082	\$268,232,494

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 7,195,254
Instruction-Related Services:	
Instructional Supervision and Administration	316,613
Instructional Library, Media, and Technology	109,556
School Site Administration	1,437,587
Pupil Services:	
Home-to-School Transportation	177,118
Food Services	1,406
All Other Pupil Services	11,070
General Administration:	
All Other General Administration	274,092
Centralized Data Processing	93,905
Plant Services	723,765
Ancillary Services	149,096
Total Depreciation Expenses Governmental Activities	\$ 10,489,462

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts payable between District funds for repayments of loans, charges for services, and funding transfers. Interfund receivable and payable balances at June 30, 2014, are as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$ 3,559,082	\$ 14,009,674
Adult Education	3,855,478	856,183
Cafeteria	28,442	391,766
Child Development	27,789	251,645
Building	5,783,004	-
Deferred Maintenance	-	594,369
Special Reserve - Capital Outlay	2,850,000	-
 Total Governmental Funds	 16,103,795	 16,103,637
 Self Insurance	 -	 158
 Total All Funds	 \$ 16,103,795	 \$ 16,103,795

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund - Fiscal Year 13-14 Deferred Maintenance Transfer	\$ 1,305,241
The General Fund transferred to OPEB - Fiscal Year 13-14 Annual Required Contribution for Other Postemployment Benefits (OPEB)	1,500,000
The General Fund transferred to the Debt Service Fund for certificates of participation payment	1,206,144
The General Fund transferred to the Adult Education Fund - Fiscal Year 13-14 Contribution	128,361
The General Fund transferred to the Adult Education Fund - Local Control Funding Formula	3,727,117
The General Fund transferred to the Special Reserve Capital Outlay Fund - VCIS Loan Payment	50,000
The General Fund transferred to the Cafeteria Fund for nutritional services support	21,193
The General Fund transferred to Special Reserve Capital Outlay- Future Facilities Projects	2,850,000
The Adult Education Fund transferred to the General Fund - Visalia Adult School (VAS) Custodial Salary Savings	640,000
The Adult Education Fund transferred to the General Fund - Tier III Flexibility	60,000
The Adult Education Fund transferred to the Child Development Fund - Fiscal Year 12-13 Contribution	27,789
The Special Reserve Fund for Postemployment Benefits transferred to Building Fund - Loan for Solar Project	5,783,004
 Total All Funds	 \$ 17,298,849

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 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Capital Facilities Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 11,246,282	\$ 96,664	\$ 581,981	\$ 982,901	\$ 12,907,828	\$ 3,646	\$ 12,911,474
Deferred payroll and benefits	637,020	-	-	69,396	706,416	2,345	708,761
State apportionment	46	61	-	70	177	5,527,342	5,527,519
Total	<u>\$ 11,883,348</u>	<u>\$ 96,725</u>	<u>\$ 581,981</u>	<u>\$ 1,052,367</u>	<u>\$ 13,614,421</u>	<u>\$ 5,533,333</u>	<u>\$ 19,147,754</u>

NOTE 7 – ADVANCES FROM GRANTORS

Advances from grantors at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,652,860	\$ -	\$ 2,652,860
State categorical aid	-	27,175	27,175
Total	<u>\$ 2,652,860</u>	<u>\$ 27,175</u>	<u>\$ 2,680,035</u>

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Adjustments/ Deductions	Balance June 30, 2014	Due Within One Year
General obligation bonds -					
2010 Refunding	\$ 10,175,000	\$ -	\$ 3,380,000	\$ 6,795,000	\$ 3,525,000
2013 Issuance	33,999,971	-	-	33,999,971	1,055,000
Bond issuance premium	3,373,592	-	437,459	2,936,133	270,119
Accretion on 2013 Bond	-	416,181	-	416,181	
Refunding certifications of participation:					
2005 Issuance	6,840,000	-	960,000	5,880,000	1,060,000
Compensated absences	1,001,012	561	-	1,001,573	-
Capital leases	3,356,782	-	585,153	2,771,629	597,874
State School Building loans payable	-	210,000	-	210,000	-
Other postemployment benefits liability	10,518,523	7,967,484	7,649,441	10,836,566	-
Totals	\$ 69,264,880	\$ 8,594,226	\$ 13,012,053	\$ 64,847,053	\$ 6,507,993

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation (COP) are made by the General and Capital Facilities Funds through the trustee. The accrued vacation and retiree obligations will be paid by the fund for which the employee worked. The capital leases are paid for by the General, Adult Education, Capital Facilities, and Child Development Funds.

On April 1, 2010, the District issued \$16,685,000 of 2010 Refunding General Obligation Bonds, which also included \$1,316,560 in Bond Issuance Premium to (a) provide a portion of money necessary to prepay and (b) defease the District's General Obligation Bonds. The Advance Refunding of the General Obligation Bonds relating to the 1999 Series A, 1999 Series B, and 1999 Series C Bonds made a principal payment of \$7,710,000, \$4,210,000, and \$5,475,000 to each bond, respectively. The refunding escrow was structured with various Treasury Notes, and as of the closing, the 1999 Series A, 1999 Series B, and 1999 Series C Bonds will be secured by the refunding escrows.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued	Redeemed	Bonds Outstanding June 30, 2014
4/1/2010	Refunding	8/1/2017	2.0-4.0%	\$ 16,685,000	\$ 10,175,000	\$ -	\$ 3,380,000	\$ 6,795,000
4/9/2013	Original	8/1/2043	4.0-5.3%	33,999,971	33,999,971	-	-	33,999,971

Debt Service Requirements to Maturity

2010 Refunding Bonds: Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 3,525,000	\$ 201,300	\$ 3,726,300
2016	1,640,000	98,000	1,738,000
2017	800,000	49,200	849,200
2018	830,000	16,600	863,200
Total	\$ 6,795,000	\$ 365,100	\$ 7,176,700

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)**Debt Service Requirements to Maturity** (Continued)

On April 25, 2013, the District issued \$33,999,971 of 2013 General Obligation Bonds, which also included \$2,711,287 in Bond Issuance Premium. The bonds were issued as a result of the passage of Measure E on November 6, 2012, by voter referendum. The 2013 General Obligation Bonds issuance will not increase the current property tax rate, which is \$30 per \$100,000 of assessed property value per year, in the District area. Instead, it will extend the current rate and will bring \$60.1 million to the District that will be matched by that State for a total of \$120 million. The bonds will be used to improve facilities, repair and replacement roofs, increase Americans with Disabilities Act (ADA) accessibility, modernize science labs, relieve overcrowding, and build a new middle school.

2013 General Obligation Bonds:			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2015	\$ 1,055,000	\$ 1,382,583	\$ 2,437,583
2016	1,425,000	1,038,763	2,463,763
2017	105,000	967,512	1,072,512
2018	550,000	962,262	1,512,262
2019	290,000	934,763	1,224,763
2020-2024	6,250,237	4,229,060	10,479,297
2025-2029	4,457,403	3,211,762	7,669,165
2030-2034	3,935,875	3,180,000	7,115,875
2035-2039	5,272,637	3,180,000	8,452,637
2040-2045	11,075,000	1,936,300	13,011,300
Total	<u>\$ 34,416,152</u>	<u>\$ 21,023,005</u>	<u>\$ 55,439,157</u>

Current Interest Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2015	\$ 1,055,000	\$ 1,382,583	\$ 2,437,583
2016	1,425,000	1,038,762	2,463,762
2017	105,000	967,513	1,072,513
2018	550,000	962,263	1,512,263
2019	290,000	934,762	1,224,762
2020-2024	5,050,000	4,229,061	9,279,061
2025-2029	605,000	3,211,762	3,816,762
2030-2034	-	3,180,000	3,180,000
2035-2039	640,000	3,180,000	3,820,000
2040-2044	13,005,000	1,936,300	14,941,300
	<u>\$ 22,725,000</u>	<u>\$ 21,023,006</u>	<u>\$ 43,748,006</u>

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

Capital Appreciation Bond

The District issued one capital appreciation bond for \$11,274,971. Capital appreciation bonds are debt securities on which investment return on an initial principal is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the “maturity value”) representing both the initial principal amount and total investment return. The following schedule represents the capital appreciation bond issued by the District:

<u>Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Initial Principal Amount</u>	<u>Accreted Value at 6/30/14</u>	<u>Accreted Value at Maturity</u>
2013	August 1, 2043	4.0% to 4.9%	\$ 11,274,971	\$ 416,181	\$ 27,660,000

The following summarizes the General Obligation Bond activity during the year:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
2013 Bond Payable	\$ 33,999,971	\$ -	\$ -	\$ 33,999,971
2010 Bond Payable	10,175,000	-	(3,380,000)	6,795,000
Bond Issuance Premium	3,373,592	-	(437,459)	2,936,133
Accretion on 2013 Bond	-	416,181	-	416,181
Total	\$ 47,548,563	\$ 416,181	\$ (3,817,459)	\$ 44,147,285

Financing Corporation

The District issued 2005 Refunding COPs for \$11,955,000 at interest rates varying from 4.0 to 5.75 percent.

The District and City of Visalia Redevelopment Successor Agency are required to make minimum payments each year, as disclosed in the following payment schedule.

<u>Issue Date</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Outstanding Beginning of Year</u>	<u>Issued Current Year</u>	<u>Principal Paid/ Defeased - Current Year</u>	<u>Outstanding End of Year</u>
2005	2007-2022	4.00-5.75%	\$ 6,840,000	\$ -	\$ 960,000	\$ 5,880,000

The refunding COPs mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2015	\$ 1,060,000	\$ 205,764	\$ 1,265,764
2016	1,220,000	160,144	1,380,144
2017	1,235,000	113,360	1,348,360
2018	1,330,000	66,038	1,396,038
2019	240,000	36,450	276,450
2019-2022	795,000	48,500	843,500
Total	\$ 5,880,000	\$ 630,256	\$ 6,510,256

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$1,001,573.

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

	<u>Total</u>
Balance, July 1, 2013	\$ 3,356,782
Additions	-
Payments	<u>585,153</u>
Balance, June 30, 2014	<u>\$ 2,771,629</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2015	\$ 707,296
2016	632,089
2017	477,840
2018	200,001
2019	200,000
2020-2024	1,000,001
2025-2026	<u>98,727</u>
Total	3,315,954
Less: Amount Representing Interest	<u>544,325</u>
Present Value of Minimum Lease Payments	<u>\$ 2,771,629</u>

NOTE 9 – FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1 for a description of these categories). A detailed schedule of fund balances at June 30, 2014, is as follows:

	General Fund	Capital Facilities Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid Items	\$ 10,400	\$ -	\$ -	\$ -	\$ 10,400
Nonspendable Cash	41,166	-	-	-	41,166
Stores	210,300	-	-	163,800	374,100
Total Nonspendable	261,866	-	-	163,800	425,666
Restricted					
Purpose of Fund	912,478	-	-	-	912,478
ARRA: State Fiscal Stabilization Fund	312,921	-	-	-	312,921
Lottery: Instructional Materials	4,704,253	-	-	-	4,704,253
Special Education	4,556,680	-	-	-	4,556,680
Ongoing and Major Maintenance Account	1,871,671	-	-	-	1,871,671
Other Restricted Programs	725,407	-	-	-	725,407
Adult Education	1,464,382	-	-	141,631	1,606,013
Child Development	-	-	-	224,558	224,558
Cafeteria	-	-	-	4,576,230	4,576,230
Building	-	-	25,451,972	-	25,451,972
State Facility	-	-	-	215,324	215,324
Capital Projects	-	4,089,598	-	-	4,089,598
Debt Service	-	-	-	9,000,524	9,000,524
Total Restricted	14,547,792	4,089,598	25,451,972	14,158,267	58,247,629
Committed					
Special Reserve: Other Postemployment Benefits	10,021,507	-	-	-	10,021,507
Adult Education	-	-	-	2,936,413	2,936,413
Deferred Maintenance	-	-	-	-	-
Capital Projects	-	-	-	3,654,205	3,654,205
Total Committed	10,021,507	-	-	6,590,618	16,612,125
Assigned					
New Middle School Furniture/Equipment	1,500,000	-	-	-	1,500,000
Charter School Fund Balance	594,369	-	-	-	594,369
Site Carryover for Donations	750,000	-	-	-	750,000
Restricted Balance (Tier III)	1,450,000	-	-	-	1,450,000
Reserve for Campus Safety Projects	377,262	-	-	-	377,262
Redevelopment Agency Revenues for 13/14 COP Payment	2,000,000	-	-	-	2,000,000
Reserve for CalWORKS Balance	550,000	-	-	-	550,000
Total Assigned	7,221,631	-	-	-	7,221,631
Unassigned					
Economic Uncertainties	35,034,274	-	-	-	35,034,274
Unassigned/Unappropriated	2,260,521	-	-	-	2,260,521
Total Unassigned	37,294,795	-	-	-	37,294,795
Total Fund Balances	\$ 69,347,591	\$ 4,089,598	\$ 25,451,972	\$ 20,912,685	\$ 119,801,846

NOTE 10 – RISK MANAGEMENT

Description

The District's risk management activities for employee health benefits are recorded in the Internal Service Fund. District exposure to workers' compensation claims and property/liability are provided for through the purchase of insurance from a joint powers entity (see Note 14).

Claims Liabilities

The District records an estimated liability for health care. Health and welfare liabilities are based on estimates of the ultimate cost of reported claims including future claim adjustment expenses and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The internal service fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from June 30, 2012, to June 30, 2014:

	<u>Employee Benefits</u>
Liability Balance, June 30, 2012	\$ 4,488,610
Claims and changes in estimates	30,802,151
Claims payments	<u>(31,419,565)</u>
Liability Balance, June 30, 2013	3,871,196
Claims and changes in estimates	37,671,411
Claims payments	<u>(36,009,274)</u>
Liability Balance, June 30, 2014	<u>\$ 5,533,333</u>
Assets available to pay claims at June 30, 2014	<u>\$ 13,811,174</u>

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

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

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

STRS (Continued)

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$8,175,777, \$7,769,219, and \$7,512,603, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 11.44 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,442,050, \$3,238,109, and \$3,099,751, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$4,476,362 (4.52 percent of salaries subject to STRS). No contributions were made for CalPERS for the year ended June 30, 2014. 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 Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service. Currently, 342 active employees meet those eligibility requirements. The District contribution varies by bargaining unit up to 100 percent of the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, premiums are paid. During the year, expenditures of \$7,649,441 were recognized for retirees' health care benefits.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Plan Description (Continued)

The approximate accrued liability for the District at June 30, 2014, amounts to \$78,543,166. In addition, the District established a trust account with SISC for pre-funding of retiree benefits. The trust assets have an actuarial value of \$2,064,156 as of June 30, 2014, so the Unfunded Accrued Liability is \$76,479,010.

The District's health and welfare benefits plans include medical, prescription drugs, behavioral health, dental and vision benefits. The medical plan options consist of several variations of the Blue Cross Prudent Buyer Classic PPO, with prescription drug coverage carved out and provided through two American Health Care plans ("100/5-20" for Certificated and "200/10-35" for Management and Classified). Behavioral health benefits are now provided under the medical plans. Dental coverage is provided through Delta Dental, and vision coverage through the Vision Service Plan. All coverages are self insured on a fully credible basis by the SISC III; the vision insurance for Classified is provided through California's Valued Trust (CVT).

Certificated unit members and Management employees are eligible to retire with District-paid health benefits after completing at least 15 years of District service and attaining age 55. The District's contribution is the amount contributed on behalf of active unit members, excluding life insurance, and ending at age 65. Certificated unit members working at least 50% but less than 75% of full-time received one-half the full District contribution upon retirement; under 50% of full-time are not entitled to District-paid retiree benefits. For 2013-14, this amount is \$1,030 per year plus \$760 per year for a covered spouse plus \$190 per covered dependent for a maximum of three dependents. Management retirees pay \$555 per year.

Classified unit members are eligible to retire with District-paid health benefits after completing at least 15 years of District service and attaining age 55. The District's contribution is the amount contributed on behalf of active member, excluding life insurance, and ending at age 65. Members working at least 3 hours but less than 4 hours per day received a 25% District contribution upon retirement; those working at least 4 but less than 5 hours per day received a 50% District contribution; and those working at least 5 but less than 6 hours per day receive a 75% District contribution upon retirement. For 2013-14, Classified retirees selecting to buy up to the more expensive medical option ("Option B") must pay \$372 per year towards the cost of their health benefits.

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2013-14, the District's annual OPEB cost was \$7,967,484. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014, were as follows:

Annual required contribution	\$ 8,125,805
Interest on net OPEB obligation	525,926
Adjustments to annual required contribution	<u>(684,247)</u>
Annual OPEB cost	7,967,484
Contributions made	<u>7,649,441</u>
Change in net OPEB obligation (asset)	318,043
Net OPEB obligation - beginning of year	<u>10,518,523</u>
Net OPEB obligation - end of year	<u>\$ 10,836,566</u>

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net Ending OPEB Obligation</u>
2012	\$ 7,476,830	\$ 7,098,020	94.93%	\$ 10,976,990
2013	\$ 7,960,584	\$ 8,419,051	105.76%	\$ 10,518,523
2014	\$ 7,967,484	\$ 7,649,441	96.01%	\$ 10,836,566

Fiscal year 2007-08, was the year of implementation of GASB Statement No. 45 and the District has elected to implement prospectively. Therefore, three years of comparative data are presented. The District's contributions in fiscal year 2011-12, 2012-13, and 2013-14 were based on pay-as-you-go costs.

Funding Policy, Funded Status, and Funding Progress

The District's required contribution is based on pay-as-you-go financing requirements. For fiscal year 2013-14, the District contributed \$7,649,441 to the plan.

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$78,543,166, of which \$76,479,010 was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$130,681,387, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 60.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the annual required contributions of the District 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 that shows 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

Calculations 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 are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial assumptions used for rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding health care inflation and interest were based on a standard set of actuarial assumptions modified as appropriate for the District. Turnover rates were taken from a standard actuarial table, T-5, which closely matches District historic turnover patterns. Retirement rates were also based on recent District retirement patterns. Health care inflation rates are based on actuarial analysis of recent District experience and actuarial knowledge of the general health care environment. The actuarial assumption to determine the cost of covering early retirees (those under the age of 65) was an age-specific claims cost matrix fitted to the blended composite premium for active employees and early retirees. Discount rate and return on assets of 5 percent and 5 percent, respectively, were used.

NOTE 13 – 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, 2014.

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, 2014.

Construction Commitments

As of June 30, 2014, 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>
Conyer Elementary Office Remodel	\$ 184,710	October 2014
Crowly Elementary Child Care Facilities	213,515	September 2014
Crowly Elementary Growth Portables Project	78,337	November 2014
Elbow Creek Elementary Playground Phase I	76,747	January 2015
Elbow Creek Elementary Site Security	33,722	September 2014
Goshen Elementary Re-locatable Classrooms	127,751	August 2014
Houston Elementary Playground Phase I	89,150	January 2015
Ivanhoe Elementary Playground Phase I	99,648	January 2015
Mineral King Elementary Site Security	176,831	September 2014
Mt.View Elementary Playground Phase I	70,585	January 2015
Mt.View Elementary Site Security	61,833	September 2014
Golden Oak Playground Phase I	98,034	January 2015
Hurley Elementary Site Security	31,784	September 2014
Green Acres Middle School Painting Project	33,540	August 2014
La Joya Middle School Site Security	38,990	September 2014
Redwood Highschool Roofing Project	72,684	November 2014
Compus Security Project	465,166	September 2014
Adult School Parking Lot	657,536	January 2015
Sycamore	527,209	September 2014
VIS Technical Early College Dairy Plant Project	187,554	September 2014
VIS College of Sequoia Farm Project	190,580	March 2015
Total	<u>\$ 3,515,906</u>	

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Excess Liability Fund (SELF), Self-Insured Schools of California III (SISC III), Tulare County Schools Insurance Group (TCSIG), the Tulare County School Districts' Self-Insurance Authority (TCSDSA), and Nor-Cal Relief (NCR) public entity risk pools. The District pays an annual premium to each entity for its excess health, workers' compensation, and property liability coverage. The relationship between the District and the pools is such that they are not component units of the District for financial reporting purposes. The District is also a member of the newly formed Visalia

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS (Continued)

Civic Facilities Authority Joint Powers Authority (JPA). No financial transactions have occurred in the JPA as of June 30, 2014.

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 available from the respective entities.

The District has appointed no board members to the governing board of SELF.

The District has appointed no board members to the governing board of SISC III.

During the year ended June 30, 2014, the District made payment of \$3,083,877 to SISC III for health benefits.

The District has appointed one board member to the governing board of TCSIG.

During the year ended June 30, 2014, the District made payment of \$3,424,367 to TCSIG for workers' compensation insurance.

The District has appointed one board member to the governing board of TCSDSIA.

The District has appointed no board members to the governing board of NCR.

During the year ended June 30, 2014, the District made total payments of \$1,473,558 to the following:

- SELF for excess insurance coverage for liability claims beyond that which is paid by TCSDSIA
- TCSDSIA for property and liability damage claims
- NCR for excess property and liability damage claims beyond that which is paid by BMI (Buckman Mitchell), the District's consultant

Condensed combined audited financial information of SISC III, for the year ended September 30, 2013 (most recent information available), is as follows:

	September 30, 2013 <u>SISC III</u>
Total Assets	\$ 307,006,834
Total Liabilities	<u>(139,744,058)</u>
Fund Balance	<u>\$ 167,262,776</u>
Total Revenues	\$ 1,395,304,821
Total Expenditures	<u>(1,386,741,291)</u>
Net Change in Fund Balance	<u>\$ 8,563,530</u>

The District's share of year-end assets, liabilities, or fund balance has not been calculated by SISC III as of September 30, 2013. Copies of the JPA's financial report may be obtained from the SISC office, 1300 17th Street – City Centre P.O. Box 1867 – Bakersfield, CA 93303-1847.

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS (Continued)

Condensed combined audited financial information of TCSIG, for the year ended June 30, 2012 (most recent information available), is as follows:

	June 30, 2012
	<u>TCSIG</u>
Total Assets	\$ 3,305,244
Total Liabilities	<u>(1,795,525)</u>
Fund Balance	<u>\$ 1,509,719</u>
Total Revenues	\$ 14,766,299
Total Expenditures	<u>(14,783,756)</u>
Net Change in Fund Balance	<u>\$ (17,457)</u>

The District's share of year-end assets, liabilities, or fund balance has not been calculated by TCSIG as of June 30, 2012. Copies of the JPA's financial report may be obtained by the TCSIG office, P.O. Box 5091, Visalia, CA 93278.

Condensed combined audited financial information of TCSDSIA, for the year ended June 30, 2012 (most recent information available), is as follows:

	June 30, 2012
	<u>TCSDSIA</u>
Total Assets	\$ 1,570,704
Total Liabilities	<u>(754,712)</u>
Fund Balance	<u>\$ 815,992</u>
Total Revenues	\$ 3,013,165
Total Expenditures	<u>(2,870,867)</u>
Net Change in Fund Balance	<u>\$ 142,298</u>

The District's share of year-end assets, liabilities, or fund balance has not been calculated by TCSDSIA as of June 30, 2012.

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS (Continued)

Condensed combined audited financial information of NCR, for the year ended June 30, 2012 (most recent information available), is as follows:

	June 30, 2012
	<u>NCR</u>
Total Assets	\$ 64,352,057
Total Liabilities	<u>(34,304,678)</u>
Fund Balance	<u>\$ 30,047,379</u>
Total Revenues	\$ 16,956,743
Total Expenditures	<u>(13,337,585)</u>
Net Change in Fund Balance	<u>\$ 3,619,158</u>

The District's share of year-end assets, liabilities, or fund balance has not been calculated by NCR as of June 30, 2012.

Financial information for SELF and Visalia Civic Facilities Authority JPA was not available at June 30, 2014.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

For fiscal year ending June 30, 2014, the District made a prior period adjustment due to the adoption of GASB Statement No. 65, as described in "New Accounting Pronouncements" in Note 1, which requires the restatement of the June 30, 2013 net position in Governmental Activities. The result is a decrease in Net Position at July 1, 2013 of \$644,141. This change is in accordance with accounting principles generally accepted in the United States of America.

	Governmental Activities
	<u></u>
Net Position - Beginning, as Previously Reported	\$ 330,962,301
To record bond issuance costs to comply with the implementation of GASB Statement No. 65.	<u>(644,141)</u>
Net Position - Beginning, as Restated	<u>\$ 330,318,160</u>

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 12, 2014 which is the date the financial statements were available to be issued. We noted the following subsequent events:

- A. **Purchase of Real Property** – The District entered into an agreement for the purchase of real property with the Trustee of the Farhang Living Trust on July 10, 2014. The District purchased the real property located at 824 West Goshen Avenue for \$260,000. The District plans on using this property to expand Highland Elementary School parking.

NOTE 16 – SUBSEQUENT EVENTS (Continued)

- B. **Purchase of Real Property** – The District entered into an agreement for the purchase of real property with Tevelde Family Trust on June 13, 2014; however, the escrow closed on September 12, 2014. The District purchased 13 acres of vacant land located at the northwest corner of Giddings Street and the future Shannon Parkway street alignment for \$1,040,000. The District plans on building a new elementary school on this land.

- C. **Purchase of Real Property** – The District closed escrow on August 4, 2014, on approximately 1.4 acres of land purchased from the Golden State YMCA for \$1,000,000. The District plans on using this property to expand the District's Charter Home School's online education program.

- D. **State Facilities Program** – On October 14, 2014, the District's Board recommended to pause the Measure E Facilities Program, which funds the District's Measure E projects. The Measure E bond program development was based on the availability of State funds for both new construction and modernization. The District will put a hold on certain projects until the Governor's January 2015 budget passage.

REQUIRED SUPPLEMENTARY INFORMATION

**VISALIA UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE (BY OBJECT)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts (GAAP Basis)		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Revenue Limit Sources	\$ 141,750,670	\$ 182,216,738	\$ 177,195,328	\$ (5,021,410)
Federal Revenues	17,369,590	18,222,145	14,957,116	(3,265,029)
Other State Revenues	25,010,715	12,902,653	12,764,746	(137,907)
Other Local Revenues	14,002,266	15,039,463	16,304,971	1,265,508
TOTAL REVENUES	198,133,241	228,380,999	221,222,161	(7,158,838)
EXPENDITURES				
Current:				
Certificated Salaries	94,045,957	102,414,480	97,611,818	4,802,662
Classified Salaries	27,676,466	28,765,667	28,187,572	578,095
Employee Benefits	46,896,566	46,366,374	44,612,794	1,753,580
Books and Supplies	9,352,224	19,656,417	15,404,484	4,251,933
Services and Other Operating Expenditures	16,753,484	20,917,463	16,567,334	4,350,129
Debt Service:				
Capital Outlay	14,000	6,665,338	5,516,607	1,148,731
Other Outgo	2,205,889	3,890,414	3,875,470	14,944
Indirect/Direct Support Costs	(561,909)	(612,959)	(578,255)	(34,704)
TOTAL EXPENDITURES	196,382,677	228,063,194	211,197,824	16,865,370
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,750,564	317,805	10,024,337	9,706,532
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	-	-
Transfers In	700,000	2,200,000	2,200,000	-
Transfers Out	(3,758,912)	-	(16,571,060)	(16,571,060)
Other Uses	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,058,912)	2,200,000	(14,371,060)	(16,571,060)
Net Change in Fund Balance	(1,308,348)	2,517,805	(4,346,723)	(6,864,528)
Fund Balance at Beginning of Year	-	-	73,694,314	-
Fund Balance at End of Year	\$ (1,308,348)	\$ 2,517,805	\$ 69,347,591	\$ (6,864,528)

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
7/1/2008	\$ -	\$ 58,891,761	\$ 58,891,761	0%	\$ 112,489,808	52.35%
7/1/2010	\$ -	\$ 66,291,096	\$ 66,291,096	0%	\$ 107,043,831	61.93%
7/1/2012	\$ -	\$ 69,837,766	\$ 69,837,766	0%	\$ 113,378,065	61.60%
7/1/2014	\$ 2,064,156	\$ 78,543,166	\$ 76,479,010	0%	\$ 130,681,387	58.50%

SUPPLEMENTARY INFORMATION

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Cash and Investments	\$ 187,965	\$ 238,386	\$ 3,613,780	\$ 769,488
Receivables	223,724	265,939	1,375,283	-
Due from Other Funds	3,855,478	27,789	28,442	-
Stores Inventory	-	-	163,800	-
TOTAL ASSETS	\$ 4,267,167	\$ 532,114	\$ 5,181,305	\$ 769,488
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 332,940	\$ 55,911	\$ 22,334	\$ 175,119
Due to Other Funds	856,183	251,645	391,766	594,369
Advances from Grantors	-	-	27,175	-
TOTAL LIABILITIES	1,189,123	307,556	441,275	769,488
FUND BALANCES				
Nonspendable	-	-	163,800	-
Restricted	141,631	224,558	4,576,230	-
Committed	2,936,413	-	-	-
TOTAL FUND BALANCES	3,078,044	224,558	4,740,030	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,267,167	\$ 532,114	\$ 5,181,305	\$ 769,488

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET (Continued)
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
ASSETS			
Cash and Investments	\$ 215,324	\$ 1,270,268	\$ 9,000,524
Receivables	-	-	-
Due from Other Funds	-	2,850,000	-
Stores Inventory	-	-	-
TOTAL ASSETS	\$ 215,324	\$ 4,120,268	\$ 9,000,524
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 466,063	\$ -
Due to Other Funds	-	-	-
Advances from Grantor	-	-	-
TOTAL LIABILITIES	-	466,063	-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	215,324	-	9,000,524
Committed	-	3,654,205	-
TOTAL FUND BALANCES	215,324	3,654,205	9,000,524
TOTAL LIABILITIES AND FUND BALANCES	\$ 215,324	\$ 4,120,268	\$ 9,000,524

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET (Continued)
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Debt Service Fund	Total Non-Major Governmental Funds
<u>ASSETS</u>		
Cash and Investments	\$ -	\$ 15,295,735
Receivables	-	1,864,946
Due from Other Funds	-	6,761,709
Stores Inventory	-	163,800
	-	163,800
TOTAL ASSETS	\$ -	\$ 24,086,190
<u>LIABILITIES AND FUND BALANCES</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ -	\$ 1,052,367
Due to Other Funds	-	2,093,963
Advances from Grantors	-	27,175
	-	27,175
TOTAL LIABILITIES	-	3,173,505
<u>FUND BALANCES</u>		
Nonspendable	-	163,800
Restricted	-	14,158,267
Committed	-	6,590,618
	-	6,590,618
TOTAL FUND BALANCES	-	20,912,685
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 24,086,190

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS (By Object)
 FOR THE YEAR ENDED JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal Revenues	\$ 331,238	\$ 224,955	\$ 8,419,052	\$ -
Other State Revenues	288,955	1,411,587	618,992	-
Other Local Revenues	561,444	55,135	2,014,389	24,361
TOTAL REVENUES	1,181,637	1,691,677	11,052,433	24,361
EXPENDITURES				
Current:				
Certificated Salaries	2,061,166	136,158	-	-
Classified Salaries	552,335	1,085,661	3,357,307	-
Employee Benefits	893,220	317,800	1,923,624	-
Books and Supplies	310,025	37,409	4,889,078	1,086
Services and Other Operating Expenditures	381,041	91,816	187,911	276,984
Capital Outlay	265,639	67,917	400,854	1,538,930
Other Outgo	-	60,862	-	-
Indirect/Direct Support Costs	139,330	-	378,064	-
TOTAL EXPENDITURES	4,602,756	1,797,623	11,136,838	1,817,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,421,119)	(105,946)	(84,405)	(1,792,639)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	210,000	-	-
Transfers In	3,855,478	27,789	21,193	1,305,241
Transfers Out	(727,789)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	3,127,689	237,789	21,193	1,305,241
Net Change in Fund Balances	(293,430)	131,843	(63,212)	(487,398)
Fund Balances at Beginning of Year	3,371,474	92,715	4,803,242	487,398
Fund Balances at End of Year	\$ 3,078,044	\$ 224,558	\$ 4,740,030	\$ -

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (Continued)
 NON-MAJOR GOVERNMENTAL FUNDS (By Object)
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>County School Facilities Fund</u>	<u>Special Reserve Capital Outlay Fund</u>	<u>Bond Interest and Redemption Fund</u>
REVENUES			
Federal Revenues	\$ -	\$ -	\$ -
Other State Revenues	-	-	-
Other Local Revenues	2,126	11,582	3,845,047
TOTAL REVENUES	<u>2,126</u>	<u>11,582</u>	<u>3,845,047</u>
EXPENDITURES			
Current:			
Certificated Salaries	-	-	-
Classified Salaries	-	-	-
Employee Benefits	-	-	-
Books and Supplies	-	-	-
Services and Other Operating Expenditures	-	28,255	-
Capital Outlay	-	1,218,551	-
Other Outgo	-	-	4,556,226
Indirect/Direct Support Costs	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>1,246,806</u>	<u>4,556,226</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,126</u>	<u>(1,235,224)</u>	<u>(711,179)</u>
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	-	-	-
Transfers In	-	2,900,000	-
Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>2,900,000</u>	<u>-</u>
Net Change in Fund Balances	2,126	1,664,776	(711,179)
Fund Balances at Beginning of Year	<u>213,198</u>	<u>1,989,429</u>	<u>9,711,703</u>
Fund Balances at End of Year	<u>\$ 215,324</u>	<u>\$ 3,654,205</u>	<u>\$ 9,000,524</u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (Continued)
 NON-MAJOR GOVERNMENTAL FUNDS (By Object)
 FOR THE YEAR ENDED JUNE 30, 2014**

	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES		
Federal Revenues	\$ -	\$ 8,975,245
Other State Revenues	-	2,319,534
Other Local Revenues	-	6,514,084
	-	6,514,084
TOTAL REVENUES	-	17,808,863
EXPENDITURES		
Current:		
Certificated Salaries	-	2,197,324
Classified Salaries	-	4,995,303
Employee Benefits	-	3,134,644
Books and Supplies	-	5,237,598
Services and Other Operating Expenditures	-	966,007
Capital Outlay	-	3,491,891
Other Outgo	1,206,144	5,823,232
Indirect/Direct Support Costs	-	517,394
	1,206,144	26,363,393
TOTAL EXPENDITURES	1,206,144	26,363,393
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,206,144)	(8,554,530)
OTHER FINANCING SOURCES (USES)		
Loan Proceeds	-	210,000
Transfers In	1,206,144	9,315,845
Transfers Out	-	(727,789)
	1,206,144	8,798,056
TOTAL OTHER FINANCING SOURCES (USES)	1,206,144	8,798,056
Net Change in Fund Balances	-	243,526
Fund Balances at Beginning of Year	-	20,669,159
Fund Balances at End of Year	\$ -	\$ 20,912,685

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 – PURPOSE OF SCHEDULES

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.

OTHER SUPPLEMENTARY INFORMATION SECTION

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Basic Education			
Adult Secondary Education	84.002	13978	\$ 142,013
Adult Basic Education	84.002A	14508	110,756
Institutionalized Adults	84.002	13971	17,435
English Literacy and Civics Education	84.002A	14109	19,335
Total Adult Basic Education			<u>289,539</u>
No Child Left Behind			
Title I - Basic and Program Improvement	84.010	14329	6,493,283
Title I - Migrant Education	84.011	14326	377,275
Title I - School Improvement Grant	84.377	15127	734,895
Title II - Teacher Quality	84.367	14341	1,064,981
Title II - Administrator Training	84.367	14344	7,577
Title III - Limited English Proficient	84.365	14346	255,845
Title IV - 21st Century Community Learning Centers Program	84.287	14349	161,542
Title V - Public Charter Schools Grants	84.282A	14941	17,806
Special Education Cluster - State Grants			
Basic	84.027	13379	3,467,088
Private School Local Assistance	84.027	10115	12,371
Preschool Local Entitlement	84.173A	13693	840,044
Total Special Education Cluster			<u>4,319,503</u>
Vocational Educational Grants			
Carl Perkins - Secondary Technical Education	84.048	14894	227,053
Carl Perkins - Adult Technical Education	84.048	14893	41,699
Total Carl Perkins			<u>268,752</u>
Indian Education	84.060	10011	146,471
Safe and Supportive Schools Programmatic Intervention	84.184	15164	665,747
Total U.S. Department of Education			<u>14,803,216</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	6,700,109
Basic Breakfast	10.553	13390	12,417
Especially Needy Breakfast	10.553	13526	1,578,049
Total Child Nutrition Cluster			<u>8,290,575</u>
Fresh Fruit and Vegetable Program	10.582	14968	117,950
Total U.S. Department of Agriculture			<u>8,408,525</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Child Development - Federal Child Care, Center Based	93.575	15136	89,934
Medical Assistance Program: Medi-Cal Administrative Activities	93.778	10060	756,780
Medical Assistance Program: Medi-Cal Billing Option	93.778	10013	554,622
Total Medical Assistance Program			<u>1,311,402</u>
Total U.S. Department of Health and Human Services			<u>1,401,336</u>
Total Expenditures of Federal Awards			<u>\$ 24,613,077</u>

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2014**

ORGANIZATION

The Visalia Unified School District was organized in 1885 and consists of an area comprising approximately 177 square miles. The District operates twenty-five elementary schools, four middle schools, four high schools, an adult school, a continuation high school, and four charter schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jim Qualls	President	2017
Juan Guerrero	Member	2017
William A. Fulmer	Member	2015
Donna Martin	Member	2015
John Crabtree	Member	2017
Charles Ulmschneider	Member	2017
Lucia Vazquez	Member	2015

ADMINISTRATION

Craig Wheaton, Ed. D.	Superintendent
Tamara Ravalin	Assistant Superintendent, Human Resources Development
Robert Gröeber	Assistant Superintendent, Administrative Services
Doug Bartsch	Elementary Schools and Special Education
Todd Oto	Middle Schools, High Schools, and Educational Options

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten through Third	8,385	8,391
Fourth through Sixth	6,114	6,112
Seventh and Eighth	3,988	3,980
Extended Year SDC K-8	10	10
Special Education	-	-
Total Elementary	<u>18,497</u>	<u>18,493</u>
SECONDARY		
Regular Classes	7,165	7,100
Extended Year SDC 9-12	5	5
Home and Hospital	-	-
Special Education	-	-
Total Secondary	<u>7,170</u>	<u>7,105</u>
COUNTY SUPPLEMENT		
Special Day Class-Elementary	246	247
County Community School	1	1
Extended Year Special Ed	9	9
Total County Supplement	<u>256</u>	<u>257</u>
Total K-12	<u>25,923</u>	<u>25,855</u>
REGIONAL OCCUPATIONAL PROGRAM CLASSES FOR ADULTS		
Adults in Correctional Facilities	19	18
Total Classes for Adults	<u>19</u>	<u>18</u>
Grand Total	<u><u>25,942</u></u>	<u><u>25,873</u></u>

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	Second Period Report	Annual Report
CHARTER SCHOOLS		
Charter Home**		
Kindergarten through Third	31	31
Fourth through Sixth	17	17
Seventh and Eighth	26	30
Subtotal - Charter Home	<u>74</u>	<u>78</u>
Charter Alternative Academy*		
Fourth through Sixth	-	1
Seventh and Eighth	17	18
Ninth to Twelfth	34	32
Subtotal - Charter Alternative Academy	<u>51</u>	<u>51</u>
Visalia Charter Independent Study**		
Seventh and Eighth	19	518
Ninth to Twelfth	502	500
Subtotal - Charter Independent Study	<u>521</u>	<u>518</u>
Visalia Technical Education Center*		
Ninth to Twelfth	128	131
Total Charter Schools	<u>774</u>	<u>777</u>

* Average Daily Attendance generated through classroom based instruction.

** Average Daily Attendance generated through non-classroom based instruction.

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2014**

Visalia Unified School District

Grade Level	1986-87 Minutes Requirement	1986-87* Minutes Requirement Reduced	2013-14 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,180	180	N/A	Complied
Grade 1	50,400	49,000	51,892	180	N/A	Complied
Grade 2	50,400	49,000	51,892	180	N/A	Complied
Grade 3	50,400	49,000	51,892	180	N/A	Complied
Grade 4	54,000	52,500	57,568	180	N/A	Complied
Grade 5	54,000	52,500	57,568	180	N/A	Complied
Grade 6	54,000	52,500	57,568	180	N/A	Complied
Grade 7	54,000	52,500	63,852	180	N/A	Complied
Grade 8	54,000	52,500	63,852	180	N/A	Complied
Grade 9	64,800	63,000	64,544	180	N/A	Complied
Grade 10	64,800	63,000	64,544	180	N/A	Complied
Grade 11	64,800	63,000	64,544	180	N/A	Complied
Grade 12	64,800	63,000	64,544	180	N/A	Complied

Charter Schools

Grade Level	1986-87 Minutes Requirement	1986-87* Minutes Requirement Reduced	2013-14 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Grade 4	54,000	52,457	66,500	180	N/A	Complied
Grade 5	54,000	52,457	66,500	180	N/A	Complied
Grade 6	54,000	52,457	66,500	180	N/A	Complied
Grade 7	54,000	52,457	66,500	180	N/A	Complied
Grade 8	54,000	52,457	66,500	180	N/A	Complied
Grade 9	64,800	62,949	66,500	180	N/A	Complied
Grade 10	64,800	62,949	66,500	180	N/A	Complied
Grade 11	64,800	62,949	66,500	180	N/A	Complied
Grade 12	64,800	62,949	66,500	180	N/A	Complied

* Education Code Section 46201.2 allows districts to reduce the number of instructional days by 5 days prior to or during the 2009-2010 school year and continues through the 2014-2015 school year. The reduced minutes requirement was calculated by prorating 175 days against 180 days. Districts, including basic aid districts, must maintain their instructional minutes at the reduced minimum number of minutes requirement, which was adopted by the District in school year 2009-2010.

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Schedule of Capital Assets	Schedule of Long-Term Liabilities
	<u> </u>	<u> </u>
June 30, 2014 Annual Financial and Budget Report (SACS Report) Balances	\$ 172,547,138	\$ 50,658,173
Adjustments and Reclassifications Increasing the Balance:		
Understatement of Net Capital Assets	95,685,356	-
Understatement in Capital Leases	-	2,936,133
Understatement of Accertion	-	416,181
Understatement of Other Postemployment Benefit Liability	<u>-</u>	<u>10,836,566</u>
June 30, 2014 Audited Financial Statements Balance	<u>\$ 268,232,494</u>	<u>\$ 64,847,053</u>
	General Fund	Special Reserve Fund for Postemployment Benefits
	<u> </u>	<u> </u>
June 30, 2014 Annual Financial and Budget Report (SACS Report)	\$ 59,326,085	\$ 10,021,506
Adjustments and Reclassifications Increasing (Decreasing) the Balance:		
To incorporate the Special Reserve for Postemployment Benefits Fund into the General Fund to comply with GASB Statement No. 54	<u>10,021,506</u>	<u>(10,021,506)</u>
June 30, 2014 Audited Financial Statements Balance	<u>\$ 69,347,591</u>	<u>\$ -</u>

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

(Amounts in thousands)

General Fund	(Budgeted) 2015 ¹	2014 ¹	2013 ⁴	2012 ⁴
Revenues and Other Financing Sources	\$ 235,345	\$ 223,422	\$ 202,916	\$ 213,850
Expenditures	227,196	211,198	196,556	192,166
Other Uses and Transfers Out	6,960	16,571	4,877	4,771
Total Outgo	234,156	227,769	201,433	196,937
Increase (Decrease) in Fund Balance	1,189	(4,347)	1,483	16,913
Ending Fund Balance	\$ 70,536	\$ 69,347	\$ 73,694	\$ 72,211
Available Reserves - General Fund ²	\$ 38,813	\$ 37,295	\$ 37,202	\$ 37,090
Available Reserves as a Percentage of Total Outgo - General Fund	16.58%	16.37%	18.47%	18.83%
Long-Term Obligations	\$ 58,103	\$ 64,847	\$ 69,265	\$ 37,887
Average Daily Attendance at P-2 ³	25,909	25,923	25,691	25,696

The General Fund balance has decreased by \$2,864 million over the past two years. The fiscal year 2014-15 budget projects a increase of \$1.19 million (1.72 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating loss in the current year, and anticipates incurring an operating surplus during the 2014-15 fiscal year. Total long-term obligations have increased by \$26,690 million over the past two years.

Average daily attendance has increased by 227 ADA over the past two years. ADA is anticipated to decrease during the 2014-2015 fiscal year.

¹ Budget 2015 is included for analytical purposes only and has not been subject to audit.

² Available reserve balances (funds designated for economic uncertainty and any other remaining undesignated fund balance) within the General Fund, Special Reserve Fund for Other than Capital Outlay Projects, and any Article XIII-B Trust Funds.

³ Excludes Adult Education and ROP ADA.

⁴ On behalf payments have been excluded from the information presented.

⁵ Excludes Special Reserve for Other Postemployment Benefits Fund per requirements of GASB Statement No. 54 as compared to 2013 and 2014 actual and budgeted 2015 amounts.

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Charter Home School Academy	Yes
Charter Alternatives Academy	Yes
Visalia Charter Independent Study	Yes
Visalia Technical Education Center	Yes

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. 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.

C. Schedule of Average Daily Attendance (ADA)

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.

D. Schedule of Instructional Time

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.

The District received incentive funding for increasing instructional time pursuant to the Longer Instructional Day incentives.

Districts must maintain its instructional minutes at the 1986-87 reduced minutes requirement, as required by Education Code Section 46201.

E. 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.

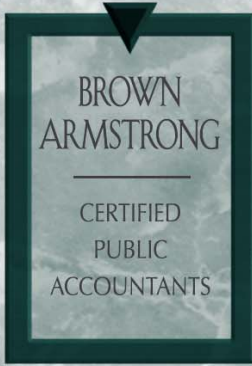
F. Schedule of Financial Trends and Analysis

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.

G. Schedule of Charter Schools

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

OTHER INDEPENDENT AUDITOR'S REPORTS



BROWN ARMSTRONG

Certified Public Accountants

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

To the Governing Board
Visalia Unified School District
Visalia, California

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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 the Visalia Unified School District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

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

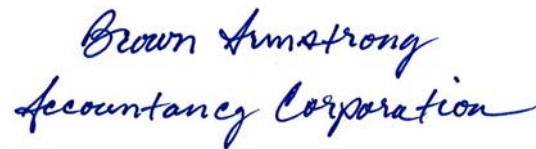
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

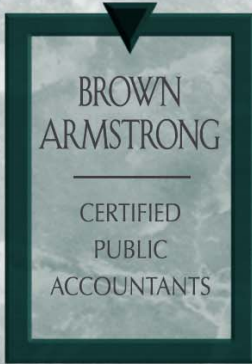
Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
December 12, 2014



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Governing Board
Visalia Unified School District
Visalia, California

MAIN OFFICE
4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Report on Compliance for Each Major Federal Program

We have audited Visalia Unified School District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 of America; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2014.

Report on Internal Control over Compliance


Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

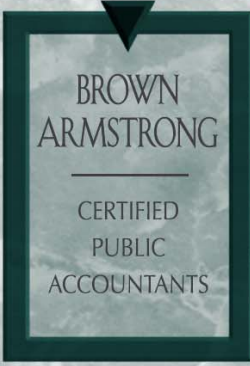
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
December 12, 2014



BROWN ARMSTRONG
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE**

Governing Board
Visalia Unified School District
Visalia, California

Report of the Financial Statements

We have audited the Visalia Unified School District's (the District) compliance with the applicable requirements as listed in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, as of and for the year ended June 30, 2014.

Management's Responsibility

Compliance with the applicable requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Education Agencies*, prescribed in the *California Code of Regulations*, Title 5, Section 19810 and following.

Those 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 procedure performed as described below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit procedures a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School District	10	Yes
Instructional Minutes:		
General Requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	N/A
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	N/A
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	N/A
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Yes
Determination of Funding for Nonclassroom-Based Instruction	3	Yes
Annual Instructional Minutes- Classroom Based	4	Yes
Charter School Facility Grant Program	1	Yes

Opinion

In our opinion, the District complied, in all material respects, with State laws and regulations referred to above for the year ended June 30, 2014.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 12, 2014

FINDINGS AND QUESTIONED COSTS SECTION

**VISALIA UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? _____ Yes X No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Basic and Program Improvement
<u>Child Nutrition Cluster</u>	
10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)

Dollar threshold used to distinguish between Type A & B programs: \$738,392

Auditee qualified as low-risk auditee? X Yes _____ No

**VISALIA UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS (Continued)
JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS (Continued)

State Awards

Internal control over state programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for state awards: Unmodified

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – STATE AWARDS FINDINGS AND QUESTIONED COSTS

None.

**VISALIA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

2013-SA-01: Verification of Free and Reduced Price Applications

Federal Grantor: United States Department of Agriculture
Title and CFDA: National School Lunch Program; 10.555
Award Number: N/A
Pass-Through Entity: California Department of Education

Questioned Costs: None
Compliance Requirement: Special Tests

Condition:

During our testing of compliance with the verification of free and reduced price application requirement, we noted one application that was not properly verified according to National School Lunch Program (NSLP) income eligibility guidelines. Applicant was receiving free lunch when income support provided indicated that applicant's monthly and yearly income exceeded the income eligibility guidelines for free meals as established by the California Department of Education (CDE).

Criteria:

In accordance with OMB Circular A-133 compliance requirements for NSLP, by November 15th of each school year, each local education agency must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. Re-verification includes obtaining income support from the sample of applicants selected and re-determining income eligibility in accordance with CDE income eligibility guidelines.

Effect of Condition:

It is possible that there are additional recipients of free or reduced lunch benefits offered under NSLP who are ineligible per the CDE income eligibility guidelines.

Cause of Condition:

The District is currently using an income eligibility definition that does not include compensation paid for sick or vacation time. However, per the United States Department of Agriculture's definition of income, income includes all monetary compensation for services including wages, salary, commissions, or fees as well as any income that could be classified as other cash income. Other cash income includes cash amounts received that would be available to pay the price of a child's meal. Money earned as compensation for sick or vacation time taken would fall under the definition of income given these USDA guidelines.

Recommendation:

We recommend that the District re-evaluate the definition of income currently in use to determine income eligibility for NSLP. We also recommend that the District thoroughly review income support obtained during the verification process as, although the monthly income definition for the sample was in question given the pay-out of sick and vacation time, the year-to-date income per the income support clearly exceeded the CDE income eligibility guidelines for NSLP.

Management's Response:

While we contend that our evaluation of the income verification in question is correct, the District will comply with the auditor's recommendation and thoroughly review income support obtained during the verification process. The District will review documents provided by CDE for the income verification process and train staff responsible for this task.

Current Year Status:

Implemented.

2013-SA-02: Paid Lunch Equity

Federal Grantor: United States Department of Agriculture
Title and CFDA: National School Lunch Program; 10.555
Award Number: N/A
Pass-Through Entity: California Department of Education

Questioned Costs: None
Compliance Requirement: Special Tests

Condition:

During our testing of the District's compliance with the School Lunch Equity requirement, we noted that the District correctly calculated the weighted average paid pricing requirement and determined that the paid lunch equity requirement was higher than this calculation. However, the District did not increase the average weighted paid lunch price nor furnished additional funds from non-Federal sources as required by the Paid Lunch Equity guidelines.

Criteria:

In accordance with OMB Circular A-133 compliance requirements for the National School Lunch Program (NSLP), each school food authority (SFA) participating in the NSLP that is currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply with the Paid Lunch Equity requirement by either (a) raising prices charged for paid lunches or (b) through contributions from other non-Federal sources.

Effect of Condition:

The District is out of compliance with Paid Lunch Equity requirement which required the District to increase the weighted price charged for paid lunches in fiscal year 2010-11 by 4.18% (includes 2% flat increase plus 2.18% inflation factor).

Cause of Condition:

The District had properly calculated the weighted average paid pricing requirement and concluded that the paid lunch equity requirement was higher than the calculation. The District then determined that they would comply with the Paid Lunch Equity requirement by increasing the average weighted paid lunch price by 4.18% per guidelines. This increase was approved by the District's Board; however, subsequent information issued by the California Department of Education (CDE) and United States Department of Agriculture (USDA) appeared to provide exemptions to Districts with significant positive equity balances in the District's Cafeteria Fund. Given this information, the District did not increase the average paid lunch price by 4.18% for fiscal year 2012-13. Upon further research it was noted that exemptions for weighted paid lunch price increases in accordance with the Paid Lunch Equity guidelines were only allowable for fiscal year 2013-14 and were only granted upon submission of a written waiver to the CDE by the District.

Recommendation:

We recommend that the District seek a formal exemption for the Paid Lunch Equity requirement for fiscal year 2012-13. We also recommend in subsequent years, the District obtain a formal exemption from the CDE and/or USDA for the Paid Lunch Equity requirement before opting not to increase the average weighted paid lunch price.

Management's Response:

The District will comply with the auditor's recommendation and seek a formal exemption for the Paid Lunch Equity requirement for fiscal year 2012-2013 and subsequent years before opting not to increase the average weighted paid lunch price.

Current Year Status:

Implemented.

2013-SA-03: Equipment

Federal Grantor: United States Department of Education

Title and CFDA: Title I; 84.010

Award Number: N/A

Pass-Through Entity: California Department of Education

Questioned Costs: During our testing of equipment purchased with Title I federal funding we noted an instance of \$73 not being properly allocated to the Title I program for the purchase of an iPad. We also noted a separate instance of \$424 being improperly allocated to the Title I program for the purchase a desktop computer.

Compliance Requirement: Equipment

Condition:

During our testing of equipment acquisitions for the Title I program, we noted multiple instances equipment acquisition costs not being properly allocated to Title I.

Criteria:

In accordance with OMB Circular No. A-110, recipients of federal awards must maintain accurate equipment and real property records which includes accurate per unit acquisition cost and information from which one can calculate the percentage of Federal participation in the cost of the equipment.

Effect of Condition:

The Title I program may be incorrectly over or under charged for additional equipment acquisitions that were not selected for testing.

Cause of Condition:

Upon review of invoice support for several pieces of equipment acquired with Title I funds, we noted invoice amounts made up of multiple equipment purchases for several of the samples selected for testing. When trying to re-calculate the District's allocation of equipment acquisition costs charged to Title I based on the invoice support provided, we noted that the allocation of costs were incorrect for two pieces of acquired equipment.

Recommendation:

We recommend that the District, on a quarterly or semi-annual basis, run a capital asset report for Title I equipment purchases and verify that acquisition costs are supported by invoice support. We also recommend that the District note the allocation of costs to the Title I program on the invoice or other additional support attached to the invoice for ease of Title I allocation re-verification.

Management's Response:

The District will comply with the auditor's recommendation and run quarterly capital asset reports for Title I purchases. We will also work to come up with a process to track costs and allocations on District invoices related to Title I equipment purchases.

Current Year Status:

Implemented.