

**VISALIA UNIFIED SCHOOL DISTRICT
COUNTY OF TULARE
VISALIA, CALIFORNIA**

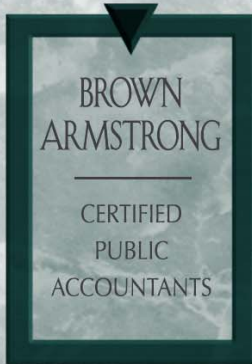
**PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
FINANCIAL AUDIT**

FISCAL YEAR ENDED JUNE 30, 2014

**VISALIA UNIFIED SCHOOL DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
JUNE 30, 2014**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Governing Board and
The Measure E Citizens' Bond Oversight Committee
Visalia Unified School District
Visalia, California

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We have audited the accompanying financial statements of the Proposition 39 General Obligation Bonds Measure E 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition 39 General Obligation Bonds Measure E of the District, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

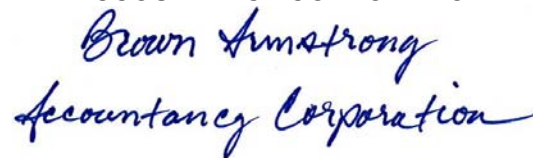
Other Matters

As discussed in Note 1, the financial statements present only the Proposition 39 General Obligation Bonds Measure E and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014, on our consideration of the District's internal control over financial reporting relating to the Proposition 39 General Obligation Bonds Measure E and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance relating to the Proposition 39 General Obligation Bonds Measure E.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California
December 23, 2014

**VISALIA UNIFIED SCHOOL DISTRICT
BALANCE SHEET
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
JUNE 30, 2014**

ASSETS

Cash and Cash Equivalents	\$ 20,250,949
Due from Other Funds	<u>5,783,004</u>

TOTAL ASSETS	<u><u>\$ 26,033,953</u></u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$ 581,981</u>
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TOTAL LIABILITIES	<u>581,981</u>
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FUND BALANCE

Restricted	<u>25,451,972</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 26,033,953</u></u>
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See the accompanying notes to the financial statements.

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
FOR THE YEAR ENDED JUNE 30, 2014**

REVENUES	
Interest Income	<u>\$ 242,760</u>
TOTAL REVENUES	<u>242,760</u>
EXPENDITURES	
Current:	
Services and Other Operating Expenditures	592,630
Capital Outlay	<u>13,092,304</u>
TOTAL EXPENDITURES	<u>13,684,934</u>
Deficiency of Revenues Under Expenditures	<u>(13,442,174)</u>
OTHER FINANCING SOURCES	
Transfers In	<u>5,783,004</u>
TOTAL OTHER FINANCING SOURCES	<u>5,783,004</u>
Net Change in Fund Balance	(7,659,170)
Fund Balance at Beginning of Year	<u>33,111,142</u>
Fund Balance at End of Year	<u><u>\$ 25,451,972</u></u>

See the accompanying notes to the financial statements.

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Interest Income	\$ 242,760	\$ 242,760	\$ -
TOTAL REVENUES	<u>242,760</u>	<u>242,760</u>	<u>-</u>
Services and Other Operating Expenditures	1,644,688	592,630	1,052,058
Capital Outlay	33,880,884	13,092,304	20,788,580
TOTAL EXPENDITURES	<u>35,525,572</u>	<u>13,684,934</u>	<u>21,840,638</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(35,282,812)</u>	<u>(13,442,174)</u>	<u>21,840,638</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	<u>5,783,004</u>	<u>5,783,004</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,783,004</u>	<u>5,783,004</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Net Change in Fund Balance	<u>(35,282,812)</u>	<u>(7,659,170)</u>	<u>27,623,642</u>
Fund Balance at Beginning of Year	<u>15,000,000</u>	<u>33,111,142</u>	<u>18,111,142</u>
Fund Balance at End of Year	<u><u>\$(20,282,812)</u></u>	<u><u>\$ 25,451,972</u></u>	<u><u>\$ 45,734,784</u></u>

See the accompanying notes to the financial statements.

**VISALIA UNIFIED SCHOOL DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants (AICPA).

B. Fund Structure

The Statement of Revenues, Expenditures, and Changes in Fund Balance is a statement of financial activities of the Proposition 39 General Obligation Bonds Measure E of the Visalia Unified School District (the District) related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, this statement does not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

C. Basis of Accounting

The Proposition 39 General Obligation Bonds Measure E of the District are maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

The financial statements present only the Proposition 39 General Obligation Bonds Measure E Activity and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cash in the County of Tulare Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

D. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Balance (Continued)

- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Trustees) and that remain binding unless removed in the same manner. Committed fund balance does not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be Board of Trustees resolution.
- *Assigned fund balance* – amounts that are constrained by the District's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. The Board of Trustees delegated authority to assign fund balance for a specific purpose to the Chief Business Official of the District.
- *Unassigned fund balance* – the residual classification for the District's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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.

E. Budget

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual includes a column titled "Budget." The amounts in this column represent the budget adopted by the Governing Board and all amendments throughout the year.

F. Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Measure E are determined by its measurement focus. The Proposition 39 General Obligation Bonds Measure E funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the Balance Sheet. The reported fund balance is considered a measure of "available spendable resources." Thus, the capital assets and long-term liabilities associated with the Proposition 39 General Obligation Bonds Measure E are accounted for in the basic financial statements of the District.

G. Recent Accounting Pronouncements

The District has reviewed all recently issued accounting pronouncements and does not believe the adoption of any such pronouncements may be expected to cause a material impact on the District's Proposition 39 General Obligation Bonds Measure E financial condition or results of its operations. Various accounting standards and interpretations were issued during the fiscal year ended June 30, 2014. The District has evaluated the recently issued accounting pronouncements that were issued during the fiscal year ended June 30, 2014, and believe none of them will have a material effect on the District's Proposition 39 General Obligation Bonds Measure E financial position, results of operations, or cash flows when adopted.

NOTE 2 – BONDED DEBT

On April 9, 2013, \$33,999,971 of 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 the State for a total of \$120 million. The bonds will be used to improve facilities, repair and replace roofs, increase Americans with Disabilities Act (ADA) accessibility, modernize science labs, relieve overcrowding, and build a new middle school.

The 2013 General Obligation Bonds are being issued as Current Interest Bonds (CIB) in the amount of \$22,725,000 and Capital Appreciation Bonds (CAB) in the amount of \$11,274,971. CIB have an interest rate ranging from 4% to 5% and the CAB interest rate ranges from 4% to 5.35%. Interest on the CIB will be paid each February 1st and August 1st of each year commencing August 1, 2014. These bonds are subject to redemption prior to maturity. The CIB term bonds maturing on August 1 of each year 2040 and 2043 are subject to mandatory sinking fund redemption prior to their maturity at a redemption price of \$2,695,000 and \$2,260,000 and an interest rate of 4% and 5%, respectively. The District has requested the County of Tulare establish and maintain a bond interest and sinking fund that is separate and distinct from all other District and County of Tulare funds, and to deposit therein the taxes levies and collected by the County of Tulare pursuant to Education Code Section 15250.

The outstanding related bonded debt for the District at June 30, 2014, is:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2013	Current Year Accretion	Additions Current Year	Redeemed Current Year	Outstanding June 30, 2014
4/9/2013	4.0-5.3%	8/1/2043	\$ 33,999,971	\$ 33,999,971	\$ 416,181	\$ -	\$ -	\$ 34,416,152

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2013 General Obligation Bonds:			
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>

NOTE 2 – BONDED DEBT (Continued)

Capital Interest Bonds

Fiscal Year	Principal	Interest to Maturity	Total
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	4,229,052	9,279,052
2025-2029	605,000	667,763	1,272,763
2030-2034	-	-	-
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>\$ 21,023,005</u>	<u>\$ 43,748,005</u>

Capital Appreciation Bond

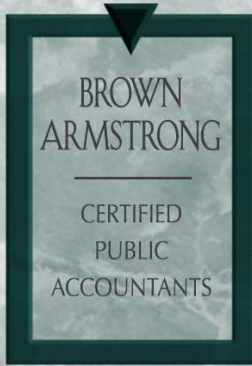
The District issued one capital appreciation bond for \$11,274,971. CABs are debt securities on which investment return on an initial principal is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the “maturity value”) representing both the initial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

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

NOTE 3 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 23, 2014, which is the date the financial statements were available to be issued. We noted the following subsequent event:

- A. 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.



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 and
The Measure E Citizens' Bond Oversight Committee
Visalia Unified School District
Visalia, California

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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 Proposition 39 General Obligation Bonds Measure E 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, and have issued our report thereon dated December 23, 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 the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 23, 2014

**VISALIA UNIFIED SCHOOL DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE E
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Current Year Findings

There were no findings or questioned costs related to the financial audit of the Proposition 39 General Obligation Bonds Measure E of Visalia Unified School District for the fiscal year ended June 30, 2014.

Prior Year Findings

None.