

**VISALIA UNIFIED SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2012**

VISALIA UNIFIED SCHOOL DISTRICT  
OF TULARE COUNTY  
VISALIA, CALIFORNIA  
JUNE 30, 2012

**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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Donna Martin	Member	2015
Jim L. Qualls	Member	2013
Charles Ulmschneider	Member	2013
Lucia Vazquez	Member	2015

**ADMINISTRATION**

Craig Wheaton, Ed. D.	Superintendent
Cindi Costa	Assistant Superintendent, Human Resources Development
Robert Gröeber	Assistant Superintendent, Administrative Services

VISALIA UNIFIED SCHOOL DISTRICT  
JUNE 30, 2012

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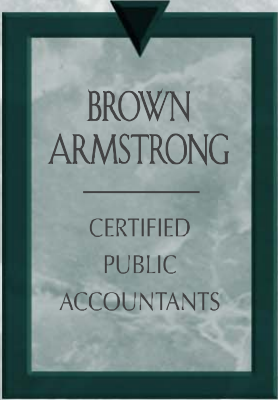
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**FINANCIAL SECTION**



# BROWN ARMSTRONG

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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 the Visalia Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 13, 51, and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and schedules listed in the table of contents under the other supplementary information section are presented for purposes of additional analysis and are not a required part of the 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 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 14, 2012

**VISALIA UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

This section of Visalia Unified School District's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. 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 assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets 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, proprietary, and fiduciary. 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.

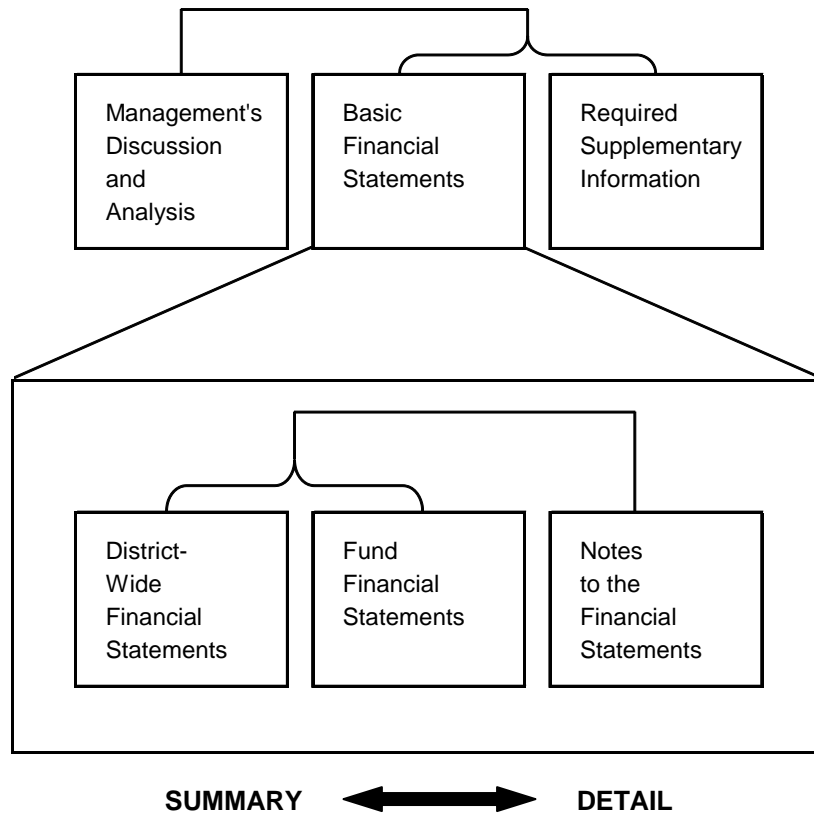
Our District does not utilize enterprise funds (one type of proprietary fund) at this time, which are the same as business-type activities. We do, however, use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other 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 assets and a statement of changes in fiduciary net assets, 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 Visalia Unified'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 State of California continued to face difficult fiscal challenges in 2012; however, the outlook for the economy has improved with the passage of two State tax measures, Proposition 30 and Proposition 39 on the November 2012 ballot that will provide additional revenues to the State and protect education from further cuts. The following factors will continue to play a significant role in the recovery:
  - State Unemployment Rate of 10.1%
  - UCLA Anderson forecast of slow employment and personal income growth in 2013 of 1.3% and 1.8%, respectively
  - Anticipated \$1.9 billion State budget short-fall in fiscal year 2012-13
- Despite challenges at the State, the District continues to budget conservatively and maintains a reserve and fund balance that enables the District to maintain fiscal solvency. The District's current reserve for economic uncertainty remains at 18.5% at the close of fiscal year 2011-12.
- The District's overall financial condition improved with revenues exceeding expenditures in the General Fund due to additional revenues from the State that were set aside as recommended by our County Office of Education for potential "trigger" reductions in the budget year. In addition, continued State flexibility in former categorically restricted programs contributed to the better financial status. The District's net assets also improved, as long-term debt continued to decline as well as increases in assets from accounts receivable and cash.

- Overall, revenues were over \$241 million for the current year, as compared to overall revenues of \$228 million in the prior year, up slightly at 5.7%. The General Fund increased by \$5.2 million in gross revenues. Capital Facilities revenues declined by \$384,000 and revenues in other governmental funds increased by \$7.9 million.
- General Fund revenues for the current year exceeded basic expenditures by \$17.4 million; \$209.6 million in revenues compared to \$192.2 million in basic expenditures.
- Growth in the City of Visalia continued to be very slow in 2011-12, which correlates to the decline in the District's 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 2011-12 is now at a level 1 rate of \$2.97 per square foot. The pace of new residential growth has remained flat this year with approximately \$1.97 million in fees received. The District does not anticipate a turn-around in housing starts in 2012-13, but rather anticipates a flattening resulting in stable revenues over the next few years.

## **REPORTING THE DISTRICT AS A WHOLE**

### *The Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets* 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 assets and changes in them. Net assets are 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 assets 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 Assets* 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 assets and changes in net assets follows:

**Table A-1**  
**Net Assets**

(Amounts in millions)	Governmental Activities		Dollar Change	Total Percentage Change
	2012	2011	2012-2011	2012-2011
Current and other assets	\$ 138.7	\$ 124.6	\$ 14.1	11.32%
Capital assets (less depreciation)	246.2	227.6	18.6	8.17%
<b>Total Assets</b>	<b>384.9</b>	<b>352.2</b>	<b>32.7</b>	<b>9.28%</b>
Current liabilities	31.4	26.5	4.9	18.49%
Long-term liabilities	32.6	34.9	(2.3)	-6.59%
<b>Total Liabilities</b>	<b>64.0</b>	<b>61.4</b>	<b>2.6</b>	<b>4.23%</b>
Net assets				
Invested in capital assets, net of related debt	220.1	198.2	21.9	11.05%
Restricted	41.9	50.3	(8.4)	-16.70%
Unrestricted	59.0	42.3	16.7	39.48%
<b>Total Net Assets</b>	<b>\$ 321.0</b>	<b>\$ 290.8</b>	<b>\$ 30.2</b>	<b>10.39%</b>

**Net assets.** The District's combined net assets were \$321.0 million for the fiscal year ended June 30, 2012, and \$290.8 million for the fiscal year ended June 30, 2011, an increase of \$30.2 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 assets as school facilities projects were completed, and to the increase in receivables for State funding as well as a decrease in long-term liabilities as bonded debt was repaid.

The \$59 million in *unrestricted* net assets 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 Assets**

(Amounts in millions)

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2012	2011	2012-2011	2012-2011
<b>Revenues</b>				
General revenues:				
Federal and State aid not restricted	\$ 138.6	\$ 138.8	\$ (0.2)	-0.14%
Charges for services	6.4	4.6	1.8	39.13%
Operating grants and contributions	54.5	48.8	5.7	11.68%
Capital grants and contributions	8.2	0.2	8.0	0.00%
Tax revenues	29.1	29.1	-	0.00%
Other local sources	4.4	6.8	(2.4)	-35.29%
<b>Total Revenues</b>	<b>241.2</b>	<b>228.3</b>	<b>12.9</b>	<b>5.65%</b>
<b>Expenses</b>				
Instruction-related	156.1	161.0	(4.9)	-3.04%
Student support services	19.2	18.8	0.4	2.13%
Administration	8.3	8.3	-	0.00%
Maintenance and operations	25.2	24.9	0.3	1.20%
Other	2.4	2.4	-	0.00%
<b>Total Expenses</b>	<b>211.2</b>	<b>215.4</b>	<b>(4.2)</b>	<b>-1.95%</b>
<b>Excess (Deficiency)</b>	<b>30.0</b>	<b>12.9</b>	<b>17.1</b>	<b>132.56%</b>
<b>Change in Net Assets</b>	<b>\$ 30.0</b>	<b>\$ 12.9</b>	<b>\$ 17.1</b>	<b>132.56%</b>

**Changes in net assets.** The District's total revenues increased from \$228.3 million at June 30, 2011, to \$241.2 million at June 30, 2012, an increase of 5.65 percent (Table A-2).

The total cost of all programs and services decreased 1.95 percent from \$215.4 million at June 30, 2011, to \$211.2 million at June 30, 2012. The majority of the District's expenses relate to educating students (83.1 percent). The purely administrative activities of the District accounted for just 3.9 percent of total costs.

Total revenues surpassed expenses, increasing net assets \$17.1 million over last year. With the 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 assets.

**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, the net cost of each of the District’s seven largest functions is presented below. 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**

(Dollar amounts in millions)

	Net Cost of Services			
	2012	2011	\$ Change	% Change
Instruction	\$ 90.7	\$ 104.8	\$ (14.1)	-13.45%
Instruction-related activities (supervision, library, and media)	20.4	20.1	0.3	1.49%
Other pupil services	4.4	4.0	0.4	10.00%
Food services	(0.8)	(0.6)	(0.2)	33.33%
Pupil transportation	(0.1)	1.5	(1.6)	-106.67%
General administration	6.6	6.8	(0.2)	-2.94%
Maintenance and operations (plant services)	19.9	22.9	(3.0)	-13.10%
Other	0.9	2.2	(1.3)	-59.09%
<b>Totals</b>	<u>\$ 142.0</u>	<u>\$ 161.7</u>	<u>\$ (19.7)</u>	<u>-12.18%</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 Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. 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 Assets*. 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 \$97.8 million, while the prior year reported a balance of \$88.9 million, which is a net increase of \$8.9 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 increased by \$16.9 million.
- b. Our Non-Major Governmental fund balances decreased by \$4.0 million.
- c. The Capital Projects fund decreased \$3.9 million from the prior year.

The decreases in the Capital Projects and Non-Major Governmental funds were primarily due to the construction of Shannon Ranch Elementary school which opened in Fall 2012.

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 October 9, 2012 (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 2011-12 budget in order to accommodate increases in attendance percentages as well as higher enrollment figures. As a result, Revenue Limit ADA calculations were increased by 147 ADA during the year.
- Special Education costs increased during the year as a result of legislation requiring additional nursing care for students with epilepsy.
- State revenues were increased by \$7.3 million during the year due to State triggers that were not enacted in December 2011 as adopted in the original budget.
- \$5.2 million of funding was budgeted during the year from Federal Education Jobs Act (Ed Jobs) funds and local funds.
- Salaries and benefits remained stable as a result of a salary freeze for employees' annual step and longevity pay increases and other cost containment measures for health and welfare costs with all employee groups.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2011, the District had \$227.6 million (after depreciation) in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2012, the total net fixed assets totaled \$246.3 million. This amount represents a net increase (including additions, deductions, and depreciation) of \$18.7 million, or 8.22 percent, from last year. The District began construction on an elementary school (Shannon Ranch Elementary) that opened in August 2012.

**Table 4**  
**Capital Assets at Year-End**  
**(Net of depreciation, in millions of dollars)**

(Amounts in millions)

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2012	2011	2012-2011	2012-2011
Land	\$ 17.0	\$ 17.0	\$ -	0.00%
Construction in progress	21.5	10.3	11.2	108.74%
Buildings and improvements	199.0	193.7	5.3	2.74%
Equipment	8.8	6.6	2.2	33.33%
<b>Totals</b>	<b>\$ 246.3</b>	<b>\$ 227.6</b>	<b>\$ 18.7</b>	<b>8.22%</b>

Long-Term Obligations

At the end of this year, the District had \$37.9 million in long-term obligations outstanding versus \$41.1 million last year, a decrease of 7.8% percent. The District’s obligations consisted of:

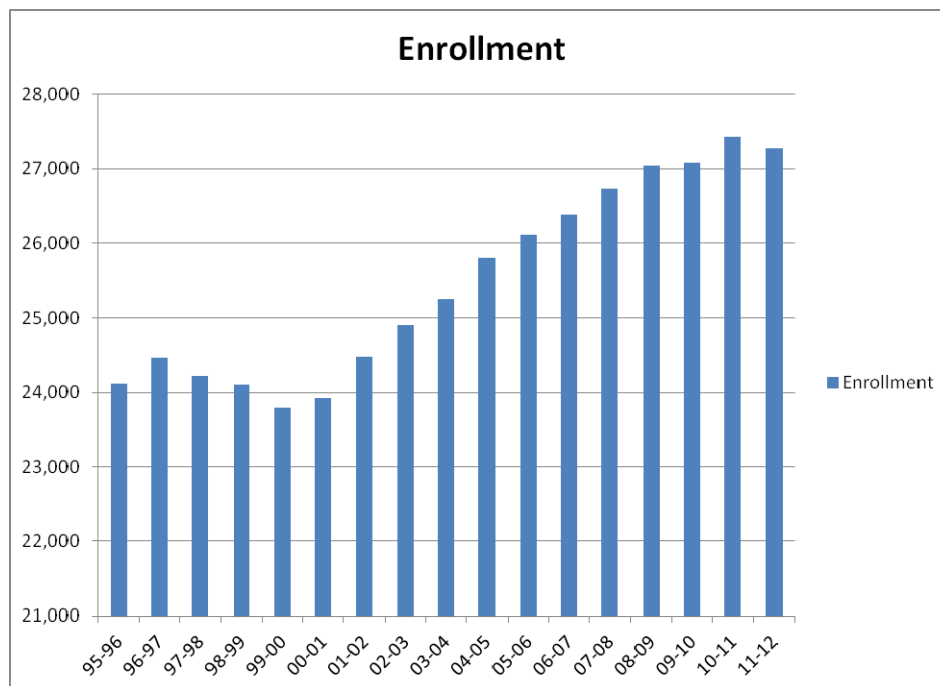
	Governmental Activities		Total Dollar Change 2012-2011	Total Percentage Change 2012-2011
	2012	2011		
General obligation bonds	\$ 14.4	\$ 16.5	\$ (2.1)	-12.73%
Certificates of participation	7.8	8.6	(0.8)	-9.30%
Capitalized lease obligations	4.0	3.1	0.9	29.03%
Other postemployment benefits liability	11.0	10.6	0.4	3.77%
Other	0.7	2.3	(1.6)	-69.57%
<b>Totals</b>	<b>\$ 37.9</b>	<b>\$ 41.1</b>	<b>\$ (3.2)</b>	<b>-7.79%</b>

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 \$14.4 million is well below the statutorily-imposed limit of approximately \$233.4 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 decrease of 163 students to 27,267. Additionally, the District’s CBEDS to P2 ADA ratio remains above the State average at 94.0%.





**SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012 ARE NOTED BELOW:**

The District has been able to accommodate large State funding reductions over the previous four years through use of our General Fund reserve, implementing budget reductions, employee reductions in work days and freezes in step, column and longevity, State categorical fund flexibility and use of one-time Federal American Recovery and Reinvestment Act dollars. The District was pleased that only minimal lay-off notices have been issued, and the District accomplished a large portion of the needed reductions to move toward a balanced budget through natural attrition and the use of an early retirement incentive in fiscal year 2008-09.

The District is proud to continue to raise student achievement as measured by the district-wide state API score of 785, which reflects continued growth for our District. The District boasts the highest performing elementary and middle schools in Tulare County and maintains the highest ranking unified school district designation.

The District has implemented after school programs (21st Century Grants) at one of our middle schools and all of our high schools. This program provides a safe and enjoyable environment for both educational and recreational activities, and partners with ProYouth/HEART, a community non-profit agency, to bring these services to our students. The After School Education and Safety programs continue at our other three middle schools. The District was also successful in applying for a Safe and Supportive Schools Grant for each of our four high schools for 2012-13.

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. While these funds are not currently in a Trust account, they help to offset any reduction to the Districts net assets for the increasing OPEB liability. As one-time dollars are available they are set aside for this future liability.

Despite continued State shortfalls, 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 District has been able to keep up with elementary growth and began construction on a new elementary school in the Northwest utilizing developer fees and state matching funds to keep elementary schools from becoming overcrowded Shannon Ranch Elementary School opened in August 2012. In November 2012, voters supported Measure E, a \$60.1 million general obligation bond for school facilities construction for the District. These funds will bring over \$120 million in facilities modernization and new construction over the next 5 years.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In considering the District budget for the 2012-13 year, the District Board and management have built a budget which continues three non-work days for certificated and management staff and unfreezing of step, column, and longevity movement. The budget allows for increases in health care costs for all units, but the increases are paid for through benefit plan reductions, use of one-time available funds, increased employee contributions and an increase in the Districts contribution. The budget reflects deficit spending as the District moves toward implementing additional budget reductions; however, that deficit was eliminated with the passage of Proposition 30 on the November 2012 ballot.

The District has seen an increase in charter school applications as well as growth in online and independent study charters in the area. Currently, a county approved charter has opened in 2011-12 and a District approved charter opened in 2012-13. Enrollment will need to be tracked carefully to ensure the District is not overstaffed if the enrollment trend begins to decline.

The District has also implemented a change in the delivery of special education services and eliminated most of the Special Day Classes. Students were moved back into the regular education classroom for instruction. Learning Centers were placed at each of the Districts school sites to bring students in for additional assistance as required by the IEP. The Learning Center is staffed by Education Specialists, formerly Special Education teachers.

The District continues to budget conservatively given the uncertainty in funding from the State. The key assumptions in our revenue forecast are:

1. Zero COLA (and no Deficit Reduction or Equalization Aid).
2. Revenue Limit deficit of 22.27%.
3. Property tax revenue will decline due to decreases in assessed valuations.
4. State aid revenue will increase proportionally to the property tax decrease. The State Revenue Limit will be \$5,223.17 per ADA for 2012-13.
5. K-12 Average Daily Attendance (ADA) is budgeted to remain stable at 25,639.64. Current District enrollment, however, indicates that ADA could increase slightly. The budget will be revised accordingly at the second interim.
6. State lottery is expected to remain stable at \$141.75 per ADA with \$23.75 restricted for instructional materials.
7. No significant changes in Federal funding.
8. Continued use of State categorical flexibility transfers of \$5.4 million.
9. Developer fees are expected to stabilize reflecting the slowing of new housing unit development in the community, down from \$12.5 million per year in FY 2005-06 to approximately \$1.65 million this year.

Expenditures are based on the following assumptions:

1. Step increases for certificated, management, and classified are budgeted in full at \$2.4 million.
2. Health care costs per employee will be paid by the District as negotiated. The annual cost of health care coverage will be \$13,623 per certificated employee, \$12,555 per management employee and either \$12,570 or \$12,222 per classified employee depending on the option elected. The District will pay \$12,000 per certificated and management employee, and \$12,237 per classified employee.
3. No additional teachers for growth are budgeted. Instead, class sizes are increasing where necessary and allowable.
4. No increased contributions to transportation, or class size reduction are budgeted. Nutritional services contribution has been decreased to zero, as their budget continues to be in balance.
5. Other increased administrative costs, equipment costs, and program staffing costs are budgeted at zero.
6. One time funds from American Recovery and Reinvestment Act stimulus have been expended.

The 2012-13 budget was developed in a timely manner. Budget development was very challenging due to the State fiscal crisis, but the District was able to settle labor negotiation contracts in late summer (and prior to the start of the 2012-13 school opening). District budgeting continues to be a very challenging process in light of the State budget situation.

### ***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](mailto:rgroeber@vusd.org).

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**VISALIA UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and Investments	\$ 65,633,451
Accounts Receivable	72,628,910
Stores Inventory	299,082
Prepaid Expenses	136,819
Land	16,969,190
Buildings and Improvements	291,556,224
Equipment	25,658,628
Construction in Progress	21,475,197
Less: Accumulated Depreciation	<u>(109,410,812)</u>
<b>TOTAL ASSETS</b>	<b><u>384,946,689</u></b>
<b><u>LIABILITIES</u></b>	
Accounts Payable and Other Accrued Liabilities	13,699,947
Current Loan Payable	9,890,000
Unearned Revenue	2,524,055
Long-Term Liabilities:	
Due Within One Year:	
Certificates of Participation Payable	910,000
Bonds Payable	3,540,659
Capital Leases Payable	806,586
Due After One Year:	
Certificates of Participation Payable	6,840,000
Bonds Payable	10,852,202
Capital Leases Payable	3,209,000
Compensated Absences Payable	751,832
Other Postemployment Benefits Liability	<u>10,976,990</u>
<b>TOTAL LIABILITIES</b>	<b><u>64,001,271</u></b>
<b><u>NET ASSETS</u></b>	
Invested in Capital Assets, Net of Related Debt	220,089,980
Restricted for:	
Capital Projects	9,836,372
Debt Service	7,709,346
Educational Programs	16,277,604
Special Revenues	8,077,551
Unrestricted	<u>58,954,565</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 320,945,418</u></b>

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

**VISALIA UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions	Expenses	Program Revenues			Net (Expense) and Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					<b>Governmental Activities</b>
Instruction	\$ 129,191,476	\$ 296,534	\$ 30,038,742	\$ 8,192,665	\$ (90,663,535)
Instruction-Related Services:					
Supervision of Instruction	7,409,806	74,504	5,222,412	-	(2,112,890)
Instructional Library, Media, and Technology	1,767,761	5,394	285,504	-	(1,476,863)
School Site Administration	17,762,947	1,619	911,455	-	(16,849,873)
Pupil Services:					
Home-to-School Transportation	4,097,461	787,739	3,408,295	-	98,573
Food Services	9,123,840	1,853,800	8,056,137	-	786,097
All Other Pupil Services	6,006,697	31,708	1,551,839	-	(4,423,150)
General Administration:					
Centralized Data Processing	2,252,981	7,367	78,239	-	(2,167,375)
All Other General Administration	6,063,258	99,323	1,550,566	-	(4,413,369)
Plant services	22,470,746	2,452,554	2,318,407	-	(17,699,785)
Ancillary Services	2,680,743	-	515,692	-	(2,165,051)
Enterprise Activities:					
Interest on Long-Term Debt	1,067,115	-	-	-	(1,067,115)
Other Outgo	1,212,658	787,627	580,271	-	155,240
<b>Totals</b>	<b>\$ 211,107,489</b>	<b>\$ 6,398,169</b>	<b>\$ 54,517,559</b>	<b>\$ 8,192,665</b>	<b>(141,999,096)</b>

**General Revenues:**

Taxes and Subventions:

Taxes Levied for General Purposes	24,838,334
Taxes Levied for Debt Service	3,376,451
Taxes Levied for Other Specific Purposes	880,977
Federal and State Aid Not Restricted to Specific Purposes	138,601,303
Interest and Investment Earnings	1,079,664
Interagency Revenues	1,172,570
Miscellaneous	2,186,369

Total General Revenues 172,135,668

Change in Net Assets 30,136,572

Net Assets Beginning 290,808,846

Net Assets Ending \$ 320,945,418

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

**FUND FINANCIAL STATEMENTS**

**VISALIA UNIFIED SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Investments	\$ 32,388,628	\$ 1,847,870	\$ 15,023,314	\$ 49,259,812
Receivables	58,663,956	92,026	11,113,289	69,869,271
Due from Other Funds	3,942,832	6,298,110	2,492,545	12,733,487
Prepaid Expenses	31,200	-	-	31,200
Stores Inventory	182,276	-	116,806	299,082
<b>TOTAL ASSETS</b>	<b>\$ 95,208,892</b>	<b>\$ 8,238,006</b>	<b>\$ 28,745,954</b>	<b>\$ 132,192,852</b>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 7,900,327	\$ 878,898	\$ 432,112	\$ 9,211,337
Due to Other Funds	2,711,218	-	10,022,269	12,733,487
Deferred Revenue	2,496,643	-	27,412	2,524,055
Current Loan Payable	9,890,000	-	-	9,890,000
<b>TOTAL LIABILITIES</b>	<b>22,998,188</b>	<b>878,898</b>	<b>10,481,793</b>	<b>34,358,879</b>
<u>FUND BALANCES</u>				
Nonspendable	257,129	-	116,806	373,935
Restricted	16,277,604	7,359,108	12,637,466	36,274,178
Committed	12,563,644	-	5,419,566	17,983,210
Assigned	6,022,654	-	90,323	6,112,977
Unassigned	37,089,673	-	-	37,089,673
<b>TOTAL FUND BALANCES</b>	<b>72,210,704</b>	<b>7,359,108</b>	<b>18,264,161</b>	<b>97,833,973</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 95,208,892</b>	<b>\$ 8,238,006</b>	<b>\$ 28,745,954</b>	<b>\$ 132,192,852</b>

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 ASSETS  
JUNE 30, 2012**

**Total Fund Balances - Governmental Funds** \$ 97,833,973

Amounts reported for governmental activities in the statement of net assets 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 \$355,659,239, and the accumulated depreciation is \$109,410,812. 246,248,427

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. 14,644,668

Unamortized cost: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expenses on the statement of net assets are: 105,619

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 assets are: (967,861)

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	(13,425,000)
Certificates of Participation	(7,750,000)
Capital Leases Payable	(4,015,586)
Compensated Absences	(751,832)
Other Postemployment Benefits Liability	(10,976,990)
	<u>(10,976,990)</u>

**Total Net Assets - Governmental Activities** \$ 320,945,418

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, 2012**

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue Limit Sources:				
State Apportionments	\$ 139,568,946	\$ -	\$ -	\$ 139,568,946
Federal Revenues	25,964,160	-	8,236,172	34,200,332
Other State Revenues	25,178,194	-	15,047,001	40,225,195
Other Local Revenues	18,928,313	1,987,721	6,204,062	27,120,096
<b>TOTAL REVENUES</b>	<b>209,639,613</b>	<b>1,987,721</b>	<b>29,487,235</b>	<b>241,114,569</b>
<b>EXPENDITURES</b>				
Instruction	118,104,670	-	4,506,583	122,611,253
Instruction-Related Services	24,132,026	-	1,163,464	25,295,490
Pupil Services	12,574,284	-	9,449,979	22,024,263
Ancillary Services	2,625,668	-	-	2,625,668
General Administration	7,422,137	83,828	535,023	8,040,988
Plant Services	25,364,051	5,795,860	14,946,946	46,106,857
Other Outgo	1,943,131	-	4,912,344	6,855,475
<b>TOTAL EXPENDITURES</b>	<b>192,165,967</b>	<b>5,879,688</b>	<b>35,514,339</b>	<b>233,559,994</b>
Excess (Deficiency) of Revenues Over Expenditures	17,473,646	(3,891,967)	(6,027,104)	7,554,575
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	99,786	99,786
Proceeds from Capital Leases	1,323,000	-	-	1,323,000
Transfers In	700,067	-	2,657,673	3,357,740
Transfers Out	(2,583,641)	-	(774,099)	(3,357,740)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(560,574)</b>	<b>-</b>	<b>1,983,360</b>	<b>1,422,786</b>
Net Change in Fund Balances	16,913,072	(3,891,967)	(4,043,744)	8,977,361
Fund Balances at Beginning of Year	55,297,632	11,251,075	22,307,905	88,856,612
Fund Balances at End of Year	<u>\$ 72,210,704</u>	<u>\$ 7,359,108</u>	<u>\$ 18,264,161</u>	<u>\$ 97,833,973</u>

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, 2012**

**Total Net Change in Fund Balances - Governmental Funds** \$ 8,977,361

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	\$ (9,012,244)	
Capital Outlays	<u>27,610,078</u>	18,597,834

Proceeds from 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 amount of the difference between the proceeds and the resulting gain or loss.

29,706

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

(20,778)

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:

217,422

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

General Obligation Bonds		3,110,000
Capital Lease Obligations		384,058
Certificates of Participation		820,000
Child Care Facilities Revolving Loan		65,000

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.

(1,323,000)

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:

(378,810)

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.

293,146

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.

(635,367)

**Change in Net Assets of Governmental Activities** \$ 30,136,572

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

**VISALIA UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012**

	<u>Governmental Activities - Internal Service Fund</u>
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash and Investments	\$ 16,373,639
Receivables	<u>2,759,639</u>
<b>Total Assets</b>	<u>19,133,278</u>
 <b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Accounts Payable	<u>4,488,610</u>
<b>Total Current Liabilities</b>	<u>4,488,610</u>
 <b><u>NET ASSETS</u></b>	
Restricted	1,294,361
Unrestricted	<u>13,350,307</u>
<b>Total Net Assets</b>	<u><u>\$ 14,644,668</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 ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Governmental Activities - Internal Service Fund</u>
<b><u>OPERATING REVENUES</u></b>	
Charges to Other Funds and Miscellaneous Revenues	<u>\$ 30,470,929</u>
<b>Total Operating Revenues</b>	<u>30,470,929</u>
<b><u>OPERATING EXPENSES</u></b>	
Payroll Costs	238,837
Professional and Contract Services	30,986,124
Supplies and Materials	<u>773</u>
<b>Total Operating Expenses</b>	<u>31,225,734</u>
<b>Operating Loss</b>	(754,805)
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>	
Interest Income	<u>119,438</u>
<b>Change in Net Assets</b>	(635,367)
<b>Total Net Assets - Beginning</b>	<u>15,280,035</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 14,644,668</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, 2012**

	<u>Governmental Activities - Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from User Charges	\$ 27,735,779
Payments (to) Employees	(238,837)
Payments (to) Suppliers	<u>(29,928,801)</u>
Net Cash Used by Operating Activities	<u>(2,431,859)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	<u>119,438</u>
Net Cash Provided by Investing Activities	<u>119,438</u>
Net Decrease in Cash and Investments	(2,312,421)
Cash and Investments at Beginning of Year	<u>18,686,060</u>
Cash and Investments at End of Year	<u><u>\$ 16,373,639</u></u>
<b>Reconciliation of Operating Loss to</b>	
<b>Net Cash Used by Operating Activities:</b>	
Operating Loss	\$ (754,805)
<b>Adjustments to Reconcile Operating Loss to</b>	
<b>Net Cash Used by Operating Activities:</b>	
<b>Net Change in Assets and Liabilities:</b>	
Accounts and Interest Receivable	(2,735,150)
Accounts Payable	<u>1,058,096</u>
Net Cash Used by Operating Activities	<u><u>\$ (2,431,859)</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and Investments	<u>\$ 13,506,423</u>
Total Assets	<u><u>\$ 13,506,423</u></u>
<b>LIABILITIES</b>	
Due to Student Groups	<u>\$ 13,506,423</u>
Total Liabilities	<u><u>\$ 13,506,423</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 operates twenty-five elementary, four middle, four high schools, an adult school, a continuation high school, and four charter schools.

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 governing 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, both of which are non-major funds. 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, Charter Alternatives Academy, Charter Independent Study, and Visalia Technical Education Center charter schools pursuant to Education Code Section 47605. The Charter Home, Charter Alternatives, 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, 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 15 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).

**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.

**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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**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:

**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.

**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 assets, 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 assets and changes in net assets. 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 assets should be reported as restricted when constraints placed on net asset 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 assets restricted for other activities result from special revenue funds and the restrictions on their net asset 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 assets. The statement of changes in fund net assets 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 Revenue** Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

**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 county treasury balances for purposes of the statement of cash flows.

G. Investments

Investments held at June 30, 2012, 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 county 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 assets. 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 assets.

### 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 assets 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

### **O. Fund Balance**

Beginning with fiscal year 2011, 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 be maintained 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 (governing 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 governing 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 governing 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.

#### **Authority to Commit Funds**

The District's governing 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<sup>th</sup> 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<sup>th</sup>.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

O. Fund Balance (Continued)

**Authority to Commit Funds** (Continued)

This policy does hereby commit all 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.

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 governing 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.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$41,900,873 of restricted net assets, of which \$16,277,604 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.

### **T. Budgetary Data**

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

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.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

U. Excess of Expenditures Over Appropriations

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
<u>Major Funds</u>	
General Fund	
Books and Supplies	\$ 551,214
Services and Other Operating Expenditures	763,952
Capital Outlay	7,244,955
Other Outgo	42,584
Indirect/Direct Support Costs	8,873

V. 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.

W. New Accounting Pronouncements

For the fiscal year ended June 30, 2012, the District did not implement any new GASB standards.

X. Future Pronouncements

Additional standards were released by GASB during the fiscal year.

**GASB Statement No. 60** – *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. The District has not fully judged the effect of the implementation of GASB Statement No. 60 as of the date of the basic financial statements.

**GASB Statement No. 61** – *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, the District has not made an assessment of any changes that will occur upon this statement's implementation.

**GASB Statement No. 62** – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the District's accounting or financial reporting upon the statement's implementation.

**GASB Statement No. 63** – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. The District will implement this change for the fiscal year ended June 30, 2013.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### X. Future Pronouncements (Continued)

**GASB Statement No. 64** – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the District has not made an assessment of any changes that will occur upon this statement's implementation.

**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. As of the date of the basic financial statements, the District has not made an assessment of any changes that will occur upon this statement's implementation.

**GASB Statement No. 66** – *Items 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. As of the date of the basic financial statements, the District has not made an assessment of any changes that will occur upon this statement's implementation.

**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. The District has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

**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 2 – DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 65,633,451
Fiduciary funds	<u>13,506,423</u>
Total Deposits and Investments	<u>\$ 79,139,874</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 49,536
Cash in revolving accounts	43,653
Investments	<u>79,046,685</u>
Total Deposits and Investments	<u>\$ 79,139,874</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.

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

**Investments in County Treasury** – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with its 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.

**General Authorizations**

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury 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 Self-Insured Schools of California (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 (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
SISC Insurance Pool	\$ 8,300,816	\$ 8,300,816	\$ -	\$ -	\$ -
Tulare County Pool	70,745,869	70,745,869	-	-	-
Totals	<u>\$ 79,046,685</u>	<u>\$ 79,046,685</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	\$ 8,300,816	N/A	\$ -	\$ -	\$ -	\$ 8,300,816
Tulare County Pool	70,745,869	N/A	-	-	-	70,745,869
Totals	<u>\$ 79,046,685</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,046,685</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	\$ 8,300,816
Restricted Cash with Fiscal Agent	Restricted Cash	1,323,000
		<u>\$ 9,623,816</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 market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. Effective December 31, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) fully guaranteed all funds in noninterest-bearing transaction deposit accounts held at FDIC insured depository institutions. As a result, the District's deposits with financial institutions in the amount of \$88,854 were fully insured as of June 30, 2012.

**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 \$8,300,816, the District has a custodial credit risk exposure of \$8,300,816 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 – RESTRICTED ASSETS**

Restricted assets in the governmental funds include \$1,323,000 in the General Fund cash and investments balance for future capital lease payments in relation to the lease purchase agreement between the District and Sovereign Bank for the purchase of special education buses.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2012, 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	
<b>Federal Government:</b>						
Categorical aid	\$ 4,669,682	\$ -	\$ 9,729,948	\$ 14,399,630	\$ -	\$ 14,399,630
<b>State Government:</b>						
Categorical aid	51,861,423	-	1,379,968	53,241,391	-	53,241,391
Lottery	325,030	-	-	325,030	-	325,030
Total State	52,186,453	-	1,379,968	53,566,421	-	53,566,421
<b>Local:</b>						
Other local sources	1,807,821	92,026	3,373	1,903,220	2,759,639	4,662,859
Total Accounts Receivable	\$ 58,663,956	\$ 92,026	\$ 11,113,289	\$ 69,869,271	\$ 2,759,639	\$ 72,628,910

## NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Current Year Adjustments	Balance June 30, 2012
<b>Governmental Activities</b>					
Capital Assets Not Being Depreciated					
Land	\$ 16,969,190	\$ -	\$ -	\$ -	\$ 16,969,190
Construction in progress	10,328,290	18,561,882	(7,414,975)	-	21,475,197
Total Capital Assets Not Being Depreciated	27,297,480	18,561,882	(7,414,975)	-	38,444,387
Capital Assets Being Depreciated					
Buildings and improvements	278,756,925	12,799,299	-	-	291,556,224
Furniture and equipment	22,038,048	3,663,872	(73,292)	30,000	25,658,628
Total Capital Assets Being Depreciated	300,794,973	16,463,171	(73,292)	30,000	317,214,852
Less Accumulated Depreciation					
Buildings and improvements	(85,019,483)	(7,488,670)	-	(1)	(92,508,154)
Furniture and equipment	(15,452,083)	(1,523,574)	74,135	(1,136)	(16,902,658)
Total Accumulated Depreciation	(100,471,566)	(9,012,244)	74,135	(1,137)	(109,410,812)
Governmental Activities Capital Assets, Net	<u>\$ 227,620,887</u>	<u>\$ 26,012,809</u>	<u>\$ (7,414,132)</u>	<u>\$ 28,863</u>	<u>\$ 246,248,427</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 6,215,823
Instruction-Related Services:	
Instructional Supervision and Administration	237,886
Instructional Library, Media, and Technology	99,198
School Site Administration	1,193,061
Pupil services:	
Home-to-School Transportation	166,876
Food Services	1,005
All Other Pupil Services	20,746
General Administration:	
All Other General Administration	205,147
Centralized Data Processing	93,226
Plant Services	647,098
Ancillary Services	132,178
Total Depreciation Expenses Governmental Activities	<u>\$ 9,012,244</u>

**NOTE 6 – 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, 2012, are as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$ 3,942,832	\$ 2,711,218
Adult Education	-	861,687
Cafeteria	22,961	352,849
Child Development	74,032	238,506
Capital Facilities	6,298,110	-
County School Facilities	-	8,192,662
Special Reserve - Capital Outlay	<u>2,395,552</u>	<u>376,565</u>
 Total Governmental Funds	 <u>12,733,487</u>	 <u>12,733,487</u>
 Total All Funds	 <u><u>\$ 12,733,487</u></u>	 <u><u>\$ 12,733,487</u></u>

**Operating Transfers**

Interfund transfers for the year ended June 30, 2012, consisted of the following:

The General Fund transferred to the Special Reserve - Capital Outlay Fund related to Visalia Charter Independent Study.	\$ 25,000
The General Fund transferred to the Deferred Maintenance Fund - 2011-12 deferred maintenance transfer.	921,346
The General Fund transferred to the Debt Service Fund for certificates of participation payment.	1,138,144
The General Fund transferred to the Cafeteria Fund for nutritional services support.	22,961
The General Fund transferred to the Special Reserve Capital Outlay Fund for the Visalia Technical Education Center Facility Impact.	476,000
The General Fund transferred to the Building Fund - 2011-12 Contribution.	190
The Adult Education Fund transferred to the Child Development Fund for Adult School.	74,032
The Adult Education Fund transferred to the General Fund for Tier III Sweep.	640,000
The Adult Education Fund transferred to the General Fund for Visalia Adult School Custodial Salary Savings.	60,000
The Building Fund transferred to the General Fund - 2011-12 Contribution.	<u>67</u>
 Total	 <u><u>\$ 3,357,740</u></u>

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

**NOTE 7 – ACCOUNTS PAYABLE**

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 7,325,061	\$ 878,898	\$ 351,098	\$ 8,555,057	\$ 7,370	\$ 8,562,427
Deferred payroll and benefits	575,473	-	80,482	655,955	-	655,955
State apportionment	(207)	-	532	325	4,481,240	4,481,565
Total	<u>\$ 7,900,327</u>	<u>\$ 878,898</u>	<u>\$ 432,112</u>	<u>\$ 9,211,337</u>	<u>\$ 4,488,610</u>	<u>\$ 13,699,947</u>

**NOTE 8 – DEFERRED REVENUE**

Deferred revenue at June 30, 2012, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,496,643	\$ -	\$ 2,496,643
State categorical aid	-	27,412	27,412
Total	<u>\$ 2,496,643</u>	<u>\$ 27,412</u>	<u>\$ 2,524,055</u>

**NOTE 9 – LONG-TERM OBLIGATIONS****Summary**

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

	Balance July 1, 2011	Additions	Adjustments/ Deductions	Balance June 30, 2012	Due Within One Year
General obligation bonds -					
2010 Refunding	\$ 16,535,000	\$ -	\$ 3,110,000	\$ 13,425,000	\$ 3,250,000
Bond issuance premium	1,185,283	-	217,422	967,861	290,659
Refunding certifications of participation:					
2005 Issuance	8,570,000	-	820,000	7,750,000	910,000
Accumulated vacation - net	1,044,978	-	293,146	751,832	-
Capital leases	3,076,644	1,323,000	384,058	4,015,586	806,586
Child care facilities revolving loan payable	65,000	-	65,000	-	-
Other postemployment benefits liability	10,598,180	7,476,830	7,098,020	10,976,990	-
Totals	<u>\$ 41,075,085</u>	<u>\$ 8,799,830</u>	<u>\$ 11,987,646</u>	<u>\$ 37,887,269</u>	<u>\$ 5,257,245</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation 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. The Child Care Facilities Revolving Loan is paid for by the Child Development Fund.



**NOTE 9 – LONG-TERM OBLIGATIONS** (Continued)

**Summary** (Continued)

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, 2011	Issued	Redeemed	Bonds Outstanding June 30, 2012
4/1/2010	Refunding	8/1/2017	2.0-4.0%	<u>\$ 16,685,000</u>	<u>\$ 16,535,000</u>	<u>\$ -</u>	<u>\$ 3,110,000</u>	<u>\$ 13,425,000</u>

**Debt Service Requirements to Maturity**

2010 Refunding Bonds: Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 3,250,000	\$ 472,000	\$ 3,722,000
2014	3,380,000	339,400	3,719,400
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	<u>\$ 13,425,000</u>	<u>\$ 1,176,500</u>	<u>\$ 14,618,100</u>

**Financing Corporation**

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

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

Issue Date	Maturity	Interest Rates	Outstanding Beginning of Year	Issued Current Year	Principal Paid/ Defeased - Current Year	Outstanding End of Year
2005	2007-2022	4.00-5.75%	<u>\$ 8,570,000</u>	<u>\$ -</u>	<u>\$ 820,000</u>	<u>\$ 7,750,000</u>

**NOTE 9 – LONG-TERM OBLIGATIONS** (Continued)**Financing Corporation** (Continued)

The refunding COPs mature as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2013	\$ 910,000	\$ 283,544	\$ 1,193,544
2014	960,000	246,144	1,206,144
2015	1,060,000	205,744	1,265,744
2016	1,220,000	160,144	1,380,144
2017	1,235,000	113,359	1,348,359
2018-2022	2,365,000	151,088	2,516,088
Total	<u>\$ 7,750,000</u>	<u>\$ 1,160,023</u>	<u>\$ 8,910,023</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$751,832.

**Capital Leases**

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

	Total
Balance, July 1, 2011	\$ 3,076,644
Additions	1,323,000
Payments	<u>384,058</u>
Balance, June 30, 2012	<u>\$ 4,015,586</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 806,586
2014	714,133
2015	707,296
2016	632,089
2017	476,596
2018-2022	1,000,000
2023-2025	<u>500,000</u>
Total	4,836,700
Less: Amount Representing Interest	<u>821,114</u>
Present Value of Minimum Lease Payments	<u>\$ 4,015,586</u>

**NOTE 10 – 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, 2012, is as follows:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Prepaid Items	\$ 31,200	\$ -	\$ -	\$ 31,200
Nonspendable Cash	43,653	-	-	43,653
Stores	182,276	-	116,806	299,082
<b>Total Nonspendable</b>	<b>\$ 257,129</b>	<b>\$ -</b>	<b>\$ 116,806</b>	<b>\$ 373,935</b>
<b>Restricted</b>				
Purpose of Fund	\$ -	\$ 7,359,108	\$ -	\$ 7,359,108
ARRA: State Fiscal Stabilization Fund	-	-	-	-
Lottery: Instructional Materials	2,733,719	-	-	2,733,719
Special Education	5,289,988	-	-	5,289,988
Ongoing and Major Maintenance Account	4,463,601	-	-	4,463,601
Other Restricted Programs	3,790,296	-	-	3,790,296
Adult Education	-	-	7,928	7,928
Child Development	-	-	97,721	97,721
Cafeteria	-	-	4,639,636	4,639,636
Building	-	-	193	193
State Facility	-	-	124,764	124,764
Capital Projects	-	-	94,091	94,091
Debt Service	-	-	7,673,133	7,673,133
<b>Total Restricted</b>	<b>\$ 16,277,604</b>	<b>\$ 7,359,108</b>	<b>\$ 12,637,466</b>	<b>\$ 36,274,178</b>
<b>Committed</b>				
Special Reserve: Other Post Employment Benefits	\$ 12,563,644	\$ -	\$ -	\$ 12,563,644
Adult Education	-	-	2,674,495	2,674,495
Deferred Maintenance	-	-	536,566	536,566
Capital Projects	-	-	2,208,505	2,208,505
<b>Total Committed</b>	<b>\$ 12,563,644</b>	<b>\$ -</b>	<b>\$ 5,419,566</b>	<b>\$ 17,983,210</b>
<b>Assigned</b>				
Carryover - Donations/Mandated Costs	\$ 810,769	\$ -	\$ -	\$ 810,769
Shannon Ranch Elementary Staffing	-	-	-	-
Shannon Ranch Elementary FFE	412,729	-	-	412,729
Tier III SBX 34 Fund Balance	3,783,616	-	-	3,783,616
Charter School Fund Balance	1,015,540	-	-	1,015,540
Reserve for 2011-12 Reductions	-	-	-	-
CalWORKS Fund Balance	-	-	-	-
Economic Uncertainties	-	-	-	-
Assigned per Board Resolution	-	-	90,323	90,323
<b>Total Assigned</b>	<b>\$ 6,022,654</b>	<b>\$ -</b>	<b>\$ 90,323</b>	<b>\$ 6,112,977</b>
<b>Unassigned</b>				
Economic Uncertainties	\$ 36,433,328	\$ -	\$ -	\$ 36,433,328
Unassigned/Unappropriated	656,345	-	-	656,345
<b>Total Unassigned</b>	<b>\$ 37,089,673</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 37,089,673</b>
<b>Total Fund Balances</b>	<b>\$ 72,210,704</b>	<b>\$ 7,359,108</b>	<b>\$ 18,264,161</b>	<b>\$ 97,833,973</b>

## **NOTE 11 – 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 15).

### **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 July 1, 2010, to June 30, 2012:

	<u>Employee Benefits</u>
Liability Balance, June 30, 2010	\$ 4,205,071
Claims and changes in estimates	27,405,815
Claims payments	<u>(28,180,372)</u>
Liability Balance, June 30, 2011	3,430,514
Claims and changes in estimates	32,041,348
Claims payments	<u>(30,983,252)</u>
Liability Balance, June 30, 2012	<u>\$ 4,488,610</u>
Assets available to pay claims at June 30, 2012	<u>\$ 14,644,668</u>

## **NOTE 12 – 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 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 California State Teachers' Retirement System (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 12 – 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 2011-12 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, 2012, 2011, and 2010, were \$7,512,603, \$7,682,089, and \$8,000,629, 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 California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement 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 2011-12 was 10.92 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, 2012, 2011, and 2010, were \$3,099,751, \$3,083,081, and \$2,806,750, 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 \$4,164,823 (4.517 percent of salaries subject to STRS). No contributions were made for CalPERS for the year ended June 30, 2012. 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 13 – 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, 347 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 \$7,098,020 were recognized for retirees' health care benefits.

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS** (Continued)

Plan Description (Continued)

The approximate accumulated future liability for the District at June 30, 2012, amounts to \$69,837,766. This amount was calculated based upon an actuarial valuation by Demsey Fillger and Associates dated July 1, 2012.

The District's health and welfare benefit plans include medical, prescription drug, 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 Management and "200/10-35" for Classified), and behavioral health provided through PacifiCare. Dental coverage is provided through Delta Dental, and vision coverage through the Vision Service Plan. All coverage except the Classified dental and vision plans are self-insured on a fully credible basis by the Self-Insured Schools of California (SISC III); the Classified dental and vision plans are self-insured on a pooled basis 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% full-time receive one-half the full District contribution upon retirement; under 50% full-time are not entitled to District-paid retiree benefits. Management retirees must pay an annual amount towards the cost of their health benefits.

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 members, excluding life insurance, and ending at age 65. Members working at least 3 but less than 4 hours per day receive a 25% District contribution upon retirement; those working at least 4 but less than 5 hours per day receive a 50% District contribution; and those working at least 5 but less than 6 hours per day receive a 75% District contribution upon retirement.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) 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 2011-12, the District's annual OPEB cost was \$7,476,830. 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, 2012, were as follows:

Annual required contribution	\$ 7,636,350
Interest on net OPEB obligation	529,909
Adjustments to annual required contribution	<u>(689,429)</u>
Annual OPEB cost	7,476,830
Contributions made	<u>7,098,020</u>
Change in net OPEB obligation (asset)	378,810
Net OPEB obligation (asset) - beginning of year	<u>10,598,180</u>
Net OPEB obligation (asset) - end of year	<u>\$ 10,976,990</u>

**NOTE 13 – 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 (Asset)</u>
2010	\$ 7,230,654	\$ 6,138,904	84.90%	\$ 9,596,793
2011	\$ 7,491,905	\$ 6,490,518	86.63%	\$ 10,598,180
2012	\$ 7,476,830	\$ 7,098,020	94.93%	\$ 10,976,990

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 2009-10, 2010-11, and 2011-12 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 2011-12, the District contributed \$7,098,020 to the plan.

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$69,837,766, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$113,378,065, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 61.6 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, will present 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 turnover experience. Retirement rates were also based on District experience. 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 average estimated equivalent one-party premium for the current retiree group. Discount rate and return on assets of 6% and 5%, respectively, were used.

## **NOTE 14 – 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, 2012.

### **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, 2012.

### **Construction Commitments**

As of June 30, 2012, 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>
Shannon Ranch Elementary School Construction Project	\$ 1,212,515	August 2012
Golden West High School Fire Alarm Modernization	639,588	August 2012
Ivanhoe Elementary Traffic Circulation Improvements	419,320	August 2012
El Diamante High School Weight Room Expansion	354,580	September 2012
Educational Office Complex Roofing Project	253,045	October 2012
La Joya Middle School Multi-Purpose Room Flooring	185,160	September 2012
Visalia Charter Independent Study Facility Improvements	124,463	August 2012
Ivanhoe Elementary Office Modernization	53,170	August 2012
Redwood High School Growth Modularity	53,135	August 2012
Green Acres Middle School Growth Modularity	33,930	August 2012
Valley Oak Track & Field Improvements	13,033	August 2012
Royal Oaks Elementary School Roofing Project	9,810	August 2012
Total	<u>\$ 3,351,749</u>	

## **NOTE 15 – 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 Civic Facilities Authority Joint Powers Authority (JPA). No financial transactions have occurred in the JPA as of June 30, 2012.

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.



**NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS** (Continued)

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, 2012, the District made payment of \$29,390,869 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, 2012, the District made payment of \$3,143,257 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, 2012, the District made total payments of \$1,413,023 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, 2011, is as follows (most recent information available):

	September 30, 2011
	<u>SISC III</u>
Total Assets	\$ 268,938,894
Total Liabilities	<u>(122,138,431)</u>
Fund Balance	<u>\$ 146,800,463</u>
Total Revenues	\$ 1,161,865,492
Total Expenditures	<u>(1,168,327,424)</u>
Net Decrease in Fund Balance	<u>\$ (6,461,932)</u>

The District's share of year-end assets, liabilities, or fund balance has not been calculated by SISC III as of September 30, 2011. Copies of the JPA's financial report may be obtained from SISC office, 1300 17<sup>th</sup> Street – City Centre P.O. Box 1867 – Bakersfield, CA 93303-1847.

Financial information for TCSIG, SELF, TCSDSIA, Visalia Civic Facilities Authority JPA, and NCR was not available at June 30, 2012.

## **NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 14, 2012, which is the date the financial statements were available to be issued. We noted the following subsequent events:

- A. **Measure E** – Measure E is a general obligation bond for the District which was passed on the November 6, 2012, ballot. Measure E 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. This bond will be used to improve facilities, repair and replace roofs, increase ADA accessibility, modernize science labs, relieve overcrowding, and build a new middle school.
  
- B. **College of Sequoias (COS) Land Acquisition** – One June 12, 2012, the District Board of Directors moved to approve the purchase and sale agreement between the District and COS to purchase property known as the COS Farm at the corner of Linwood Street and Walnut (26.29 acres). The COS Board approved the agreement at their board meeting on Monday, June 11, 2012. There will be no cost to the General Fund. Instead, \$2,500,000 from the Facilities Fund will be paid in three installments to cover the cost of the land purchase.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VISALIA UNIFIED SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE (BY OBJECT)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts (GAAP Basis)		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Revenue Limit Sources	\$ 129,221,119	\$ 130,563,166	\$ 139,568,946	\$ 9,005,780
Federal Revenues	17,487,368	16,228,549	25,964,160	9,735,611
Other State Revenues	24,466,919	22,402,128	25,178,194	2,776,066
Other Local Revenues	13,389,080	14,099,864	18,928,313	4,828,449
<b>TOTAL REVENUES</b>	<b>184,564,486</b>	<b>183,293,707</b>	<b>209,639,613</b>	<b>26,345,906</b>
<b>EXPENDITURES</b>				
Current:				
Certificated Salaries	91,203,416	91,495,293	90,078,173	1,417,120
Classified Salaries	26,639,862	26,025,261	25,734,504	290,757
Employee Benefits	46,455,987	42,282,454	41,551,251	731,203
Books and Supplies	9,553,036	8,825,148	9,376,362	(551,214)
Services and Other Operating Expenditures	15,560,297	16,028,053	16,792,005	(763,952)
Debt Service:				
Capital Outlay	14,000	14,000	7,258,955	(7,244,955)
Other Outgo	1,796,113	1,867,157	1,909,741	(42,584)
Indirect/Direct Support Costs	(535,017)	(543,897)	(535,024)	(8,873)
<b>TOTAL EXPENDITURES</b>	<b>190,687,694</b>	<b>185,993,469</b>	<b>192,165,967</b>	<b>(6,172,498)</b>
Excess (Deficiency) of Revenues Over Expenditures	(6,123,208)	(2,699,762)	17,473,646	20,173,408
<b>OTHER FINANCING SOURCES (USES)</b>				
Other Sources	-	-	1,323,000	1,323,000
Transfers In	700,000	2,200,000	2,887,324	687,324
Transfers Out	(3,708,683)	(3,607,898)	(4,770,898)	(1,163,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(3,008,683)</b>	<b>(1,407,898)</b>	<b>(560,574)</b>	<b>847,324</b>
Net Change in Fund Balance	(9,131,891)	(4,107,660)	16,913,072	21,020,732
Fund Balances at Beginning of Year	55,297,632	55,297,632	55,297,632	-
Fund Balance at End of Year	<b>\$ 46,165,741</b>	<b>\$ 51,189,972</b>	<b>\$ 72,210,704</b>	<b>\$ 21,020,732</b>

**VISALIA UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS  
JUNE 30, 2012**

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%

**SUPPLEMENTARY INFORMATION**

**VISALIA UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>				
Cash and Investments	\$ 2,249,676	\$ 41,479	\$ 3,589,089	\$ 783,312
Receivables	1,338,930	315,314	1,413,086	-
Due from Other Funds	-	74,032	22,961	-
Stores Inventory	-	-	116,806	-
<b>TOTAL ASSETS</b>	<b>\$ 3,588,606</b>	<b>\$ 430,825</b>	<b>\$ 5,141,942</b>	<b>\$ 783,312</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 44,486	\$ 77,723	\$ 17,725	\$ 246,746
Due to Other Funds	861,687	238,506	352,849	-
Deferred Revenue	10	16,875	10,527	-
<b>TOTAL LIABILITIES</b>	<b>906,183</b>	<b>333,104</b>	<b>381,101</b>	<b>246,746</b>
<b>FUND BALANCES</b>				
Nonspendable	-	-	116,806	-
Restricted	7,928	97,721	4,639,636	-
Committed	2,674,495	-	-	536,566
Assigned	-	-	4,399	-
<b>TOTAL FUND BALANCES</b>	<b>2,682,423</b>	<b>97,721</b>	<b>4,760,841</b>	<b>536,566</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,588,606</b>	<b>\$ 430,825</b>	<b>\$ 5,141,942</b>	<b>\$ 783,312</b>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET (Continued)  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve Capital Outlay Fund</u>
<b>ASSETS</b>			
Cash and Investments	\$ 193	\$ 321,178	\$ 329,041
Receivables	-	8,045,959	-
Due from Other Funds	-	-	2,395,552
Stores Inventory	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 193</u>	<u>\$ 8,367,137</u>	<u>\$ 2,724,593</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ 45,432
Due to Other Funds	-	8,192,662	376,565
Deferred Revenue	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>8,192,662</u>	<u>421,997</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	193	124,764	94,091
Committed	-	-	2,208,505
Assigned	-	49,711	-
<b>TOTAL FUND BALANCES</b>	<u>193</u>	<u>174,475</u>	<u>2,302,596</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 193</u>	<u>\$ 8,367,137</u>	<u>\$ 2,724,593</u>

See accompanying note to supplementary information.



**VISALIA UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET (Continued)  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and Investments	\$ 7,709,346	\$ -	\$ 15,023,314
Receivables	-	-	11,113,289
Due from Other Funds	-	-	2,492,545
Stores Inventory	-	-	116,806
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 7,709,346</b>	<b>\$ -</b>	<b>\$ 28,745,954</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ -	\$ -	\$ 432,112
Due to Other Funds	-	-	10,022,269
Deferred Revenue	-	-	27,412
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>10,481,793</b>
	<hr/>	<hr/>	<hr/>
<b><u>FUND BALANCES</u></b>			
Nonspendable	-	-	116,806
Restricted	7,673,133	-	12,637,466
Committed	-	-	5,419,566
Assigned	36,213	-	90,323
	<hr/>	<hr/>	<hr/>
<b>TOTAL FUND BALANCES</b>	<b>7,709,346</b>	<b>-</b>	<b>18,264,161</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,709,346</b>	<b>\$ -</b>	<b>\$ 28,745,954</b>
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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, 2012**

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>
<b>REVENUES</b>				
Federal Revenues	\$ 410,869	\$ 68,960	\$ 7,756,343	\$ -
Other State Revenues	3,617,935	1,649,751	620,826	965,827
Other Local Revenues	605,387	9,547	2,076,880	5,361
<b>TOTAL REVENUES</b>	<u>4,634,191</u>	<u>1,728,258</u>	<u>10,454,049</u>	<u>971,188</u>
<b>EXPENDITURES</b>				
Current:				
Certificated Salaries	2,000,888	124,250	-	-
Classified Salaries	541,309	1,015,681	3,050,887	-
Employee Benefits	866,343	325,564	1,766,600	-
Books and Supplies	228,798	121,544	4,175,390	60,297
Services and Other Operating Expenditures	683,785	60,003	119,193	193,744
Capital Outlay	80,886	40,245	405,687	1,835,030
Other Outgo	-	65,000	-	-
Indirect/Direct Support Costs	134,785	61,270	338,969	-
<b>TOTAL EXPENDITURES</b>	<u>4,536,794</u>	<u>1,813,557</u>	<u>9,856,726</u>	<u>2,089,071</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>97,397</u>	<u>(85,299)</u>	<u>597,323</u>	<u>(1,117,883)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	-	-
Transfers In	-	74,032	22,961	921,346
Transfers Out	(774,032)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(774,032)</u>	<u>74,032</u>	<u>22,961</u>	<u>921,346</u>
Net Change in Fund Balances	(676,635)	(11,267)	620,284	(196,537)
Fund Balances at Beginning of Year	<u>3,359,058</u>	<u>108,988</u>	<u>4,140,557</u>	<u>733,103</u>
Fund Balances at End of Year	<u>\$ 2,682,423</u>	<u>\$ 97,721</u>	<u>\$ 4,760,841</u>	<u>\$ 536,566</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, 2012**

	<b>Building Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>
<b>REVENUES</b>			
Federal Revenues	\$ -	\$ -	\$ -
Other State Revenues	-	8,192,662	-
Other Local Revenues	3	18,933	13,787
<b>TOTAL REVENUES</b>	<b>3</b>	<b>8,211,595</b>	<b>13,787</b>
<b>EXPENDITURES</b>			
Current:			
Certificated Salaries	-	-	-
Classified Salaries	-	5,344	14,819
Employee Benefits	-	3,144	2,022
Books and Supplies	-	3,753	227,608
Services and Other Operating Expenditures	-	428	119,497
Capital Outlay	-	9,988,466	2,005,766
Other Outgo	-	-	-
Indirect/Direct Support Costs	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>10,001,135</b>	<b>2,369,712</b>
Excess (Deficiency) of Revenues Over Expenditures	3	(1,789,540)	(2,355,925)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Capital Assets	-	-	99,786
Transfers In	190	-	501,000
Transfers Out	(67)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>123</b>	<b>-</b>	<b>600,786</b>
Net Change in Fund Balances	126	(1,789,540)	(1,755,139)
Fund Balances at Beginning of Year	67	1,964,015	4,057,735
Fund Balances at End of Year	<u>\$ 193</u>	<u>\$ 174,475</u>	<u>\$ 2,302,596</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, 2012**

	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>REVENUES</b>			
Federal Revenues	\$ -	\$ -	\$ 8,236,172
Other State Revenues	-	-	15,047,001
Other Local Revenues	3,474,164	-	6,204,062
<b>TOTAL REVENUES</b>	<u>3,474,164</u>	<u>-</u>	<u>29,487,235</u>
<b>EXPENDITURES</b>			
Current:			
Certificated Salaries	-	-	2,125,138
Classified Salaries	-	-	4,628,040
Employee Benefits	-	-	2,963,673
Books and Supplies	-	-	4,817,390
Services and Other Operating Expenditures	-	-	1,176,650
Capital Outlay	-	-	14,356,080
Other Outgo	3,709,200	1,138,144	4,912,344
Indirect/Direct Support Costs	-	-	535,024
<b>TOTAL EXPENDITURES</b>	<u>3,709,200</u>	<u>1,138,144</u>	<u>35,514,339</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(235,036)</u>	<u>(1,138,144)</u>	<u>(6,027,104)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Capital Assets	-	-	99,786
Transfers In	-	1,138,144	2,657,673
Transfers Out	-	-	(774,099)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>1,138,144</u>	<u>1,983,360</u>
Net Change in Fund Balances	(235,036)	-	(4,043,744)
Fund Balances at Beginning of Year	<u>7,944,382</u>	<u>-</u>	<u>22,307,905</u>
Fund Balances at End of Year	<u>\$ 7,709,346</u>	<u>\$ -</u>	<u>\$ 18,264,161</u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT  
NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2012**

**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, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Basic Education			
SEC 2231 - Priority 5 - GED	84.002	13978	\$ 76,434
SEC 231 ABE/ESL	84.002A	14508	169,905
SEC 225 Institutionalized Adults	84.002	13971	31,148
EL Civics	84.002A	14109	33,205
No Child Left Behind			
Title I - Basic and Program Improvement	84.010	14329	9,271,605
Title I - Migrant Education	84.011	14326	332,176
ARRA - Title I Basic and Program Improvement	84.389	15005	35,979
Title II - Teacher Quality	84.367	* 14341	1,777,629
Title II - Technology - Formula Grants	84.318	14334	30,099
Title II - Technology - Competitive Grants	84.318	14368	131,550
ARRA - Title II - Technology - Formula Grants	84.386	15019	1,032
Title III - Limited English Proficient	84.365	10084	500,983
Title III - Immigrant Education Program	84.365	14346	3,703
Special Education Cluster - State Grants			
Basic	84.027	* 13379	4,014,095
Preschool Local Entitlement	84.173	* 13693	750,964
ARRA - IDEA Part B	84.391	* 15003	696,000
Vocational Educational Grants			
Carl Perkins - Adult Ed	84.048	13923	100,177
Perkins Career Center	84.048	13924	202,724
Indian Education	84.060	10011	138,416
ARRA State Fiscal Stabilization Fund	84.394	* 25008	956,388
Education Jobs	84.410	* 25152	5,175,152
Safe and Supportive Schools Programmatic Invervention	84.184	15164	261,794
Total U.S. Department of Education			<u>24,691,158</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
National School Lunch Program	10.555	13396	5,897,545
Basic Breakfast	10.553	13390	230,148
Especially Needy Breakfast	10.553	13526	1,442,968
Fresh Fruit and Vegetable Program	10.582	N/A	<u>185,682</u>
Total U.S. Department of Agriculture			<u>7,756,343</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through CDE:			
Child Development - Federal Child Care, Center Based	93.575	14539	68,959
Medical Assistance Program: Medi-Cal Administrative Activities	93.778	* 10060	683,550
Medical Assistance Program: Medi-Cal Billing Option	93.778	* 10013	<u>559,315</u>
Total U.S. Department of Health and Human Services			<u>1,311,824</u>
Total Expenditures of Federal Awards			<u>\$ 33,759,325</u>

\* Denotes major program.

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT  
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
JUNE 30, 2012**

**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, four middle, four high schools, an adult school, a continuation high school, and four charter schools. There were no boundary changes during the year.

**GOVERNING BOARD**

MEMBER	OFFICE	TERM EXPIRES
Rodney Elder	President	2013
Tim Chaney	Member	2013
William A. Fulmer	Member	2015
Donna Martin	Member	2015
Jim L. Qualls	Member	2013
Charles Ulmschneider	Member	2013
Lucia Vazquez	Member	2015

**ADMINISTRATION**

Craig Wheaton, Ed. D.	Superintendent
Cindi Costa	Assistant Superintendent, Human Resources Development
Robert Gröeber	Assistant Superintendent, Administrative Services



**VISALIA UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

	Second Period Report	Annual Report	Charter ** Home <sup>1</sup>	Charter * Alternative <sup>1</sup>	Charter ** Independent Study <sup>1</sup>
<b>ELEMENTARY</b>					
Kindergarten	1,994	1,996	-	-	-
First through Third	6,123	6,130	-	-	-
Fourth through Sixth	5,959	5,962	-	2	-
Seventh and Eighth	3,745	3,742	-	25	1
Home and Hospital	8	9	-	-	-
Special Education	502	501	-	-	-
Total Elementary	<u>18,331</u>	<u>18,340</u>	<u>-</u>	<u>27</u>	<u>1</u>
<b>SECONDARY</b>					
Regular Classes	6,592	6,528		61	407
Continuation Education	290	278		-	-
Home and Hospital	3	3		-	-
Special Education	218	216		-	-
Total Secondary	<u>7,103</u>	<u>7,025</u>		<u>61</u>	<u>407</u>
<b>COUNTY SUPPLEMENT</b>					
Special Day Class-Elementary	104	106			
Special Day Class-High School	101	101			
Total County Supplement	<u>205</u>	<u>207</u>			
Total K-12	<u>25,639</u>	<u>25,572</u>		<u>88</u>	<u>408</u>
<b>REGIONAL OCCUPATIONAL PROGRAM CLASSES FOR ADULTS</b>					
Adults in Correctional Facilities	57	55			
Total Classes for Adults	<u>57</u>	<u>55</u>			
Grand Total	<u>25,696</u>	<u>25,627</u>			

<sup>1</sup> Second period attendance.

\* 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, 2012**

**Visalia Unified School District**

Grade Level	1982-83 Actual Minutes	1982-83* Actual Minutes Reduced	1986-87 Minutes Requirement	1986-87* Minutes Requirement Reduced	2011-12 Actual Minutes	Number of Days		Status
						Traditional Calendar	Multitrack Calendar	
Kindergarten	31,600	29,433	36,000	33,531	35,979	179	N/A	Complied
Grade 1	46,640	43,442	50,400	46,944	51,599	179	N/A	Complied
Grade 2	46,640	43,442	50,400	46,944	51,599	179	N/A	Complied
Grade 3	46,640	43,442	50,400	46,944	51,599	179	N/A	Complied
Grade 4	50,448	46,989	54,000	50,297	57,275	179	N/A	Complied
Grade 5	50,448	46,989	54,000	50,297	57,275	179	N/A	Complied
Grade 6	50,448	46,989	54,000	50,297	57,275	179	N/A	Complied
Grade 7	50,448	46,989	54,000	50,297	62,762	179	N/A	Complied
Grade 8	50,448	46,989	54,000	50,297	62,762	179	N/A	Complied
Grade 9	61,559	57,338	64,800	60,357	64,656	179	N/A	Complied
Grade 10	61,559	57,338	64,800	60,357	64,656	179	N/A	Complied
Grade 11	61,559	57,338	64,800	60,357	64,656	179	N/A	Complied
Grade 12	61,559	57,338	64,800	60,357	64,656	179	N/A	Complied

**Charter Alternative Academy**

Grade Level	1986-87 Minutes Requirement	1986-87* Minutes Requirement Reduced	2011-12 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Grade 7	54,000	50,297	66,250	179	N/A	Complied
Grade 8	54,000	50,297	66,250	179	N/A	Complied
Grade 9	64,800	60,357	66,250	179	N/A	Complied
Grade 10	64,800	60,357	66,250	179	N/A	Complied
Grade 11	64,800	60,357	66,250	179	N/A	Complied
Grade 12	64,800	60,357	66,250	179	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 2009-10 school year and continues through the 2012-13 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 2009-10 to reduce its instructional days to 179 for school year 2010-11 and continues through the 2012-13 school year.

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, 2012**

	Schedule of Capital Assets	Schedule of Long-Term Liabilities			
June 30, 2012 Annual Financial and Budget Report (SACS Report) Balances	\$ 172,547,138	\$ 24,619,419			
Adjustments and Reclassifications Increasing (Decreasing) the Balance:					
Understatement of Net Capital Assets	73,701,289	-			
Understatement in Capital Leases	-	1,323,000			
Understatement of General Obligation Bonds	-	967,860			
Understatement of Other Postemployment Benefit Liability	-	10,976,990			
June 30, 2012 Audited Financial Statements Balance	<u>\$ 246,248,427</u>	<u>\$ 37,887,269</u>			
			General Fund	Cafeteria Fund	Special Reserve Fund for Post-Employment Benefits
June 30, 2012 Annual Financial and Budget Report (SACS Report)	\$ 59,647,054	\$ 4,756,442	\$ 12,563,644		
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	12,563,644	-	(12,563,644)		
Understatement of Cash and Investments	-	4,399	-		
Rounding	6	-	-		
June 30, 2012 Audited Financial Statements Balance	<u>\$ 72,210,704</u>	<u>\$ 4,760,841</u>	<u>\$ -</u>		

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

(Amounts in thousands)

General Fund	(Budgeted) 2013 <sup>1</sup>	2012 <sup>4</sup>	2011 <sup>4</sup>	2010 <sup>5</sup>
Revenues and Other Financing Sources	\$ 185,264	\$ 213,850	\$ 206,504	\$ 198,210
Expenditures	190,688	192,166	195,568	199,974
Other Uses and Transfers Out	3,708	4,771	4,782	2,472
Total Outgo	194,396	196,937	200,350	202,446
Increase (Decrease) in Fund Balance	(9,132)	16,913	6,154	(4,236)
Ending Fund Balance	\$ 63,079	\$ 72,211	\$ 55,298	\$ 49,144
Available Reserves - General Fund <sup>2</sup>	\$ 34,601	\$ 37,090	\$ 16,534	\$ 11,749
Available Reserves as a Percentage of Total Outgo - General Fund	17.80%	18.83%	8.25%	5.76%
Long-Term Obligations	\$ 32,630	\$ 37,887	\$ 41,075	\$ 45,023
Average Daily Attendance at P-2 <sup>3</sup>	25,696	25,696	25,547	25,220

The General Fund balance has increased by \$23.07 million over the past two years. The fiscal year 2012-13 budget projects a decrease of \$9.13 million (12.6 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the current year, and anticipates incurring an operating loss during the 2012-13 fiscal year. Total long-term obligations have decreased by \$7.14 million over the past two years.

Average daily attendance has increased by 476 ADA over the past two years. No change in ADA is anticipated during the 2012-13 fiscal year.

<sup>1</sup> Budget 2013 is included for analytical purposes only and has not been subject to audit.

<sup>2</sup> 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.

<sup>3</sup> Excludes Adult Education and ROP ADA.

<sup>4</sup> On behalf payments have been excluded from the information presented.

<sup>5</sup> Excludes Special Reserve for Other Postemployment Benefits Fund per requirements of GASB Statement No. 54 as compared to 2012 actual and budgeted 2013 amounts.

VISALIA UNIFIED SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2012

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

See note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT  
NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2012**

**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)

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

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 did not receive incentive funding for increasing instructional time pursuant to the Longer Instructional Day incentives.

Districts must maintain their instructional minutes at the 2011-12 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.

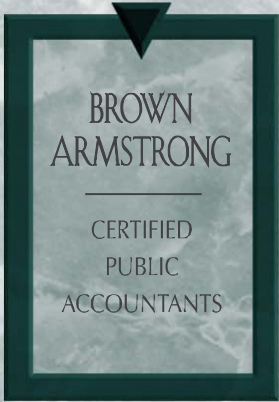
F. Schedule of Financial Trends and Analysis

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**

Governing Board  
Visalia Unified School District  
Visalia, California

We have audited 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

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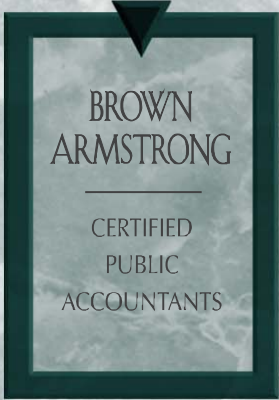
We noted certain matters that we reported to management of the District, in a separate letter dated December 14, 2012.

This report is intended solely for the information and use of the governing board, management, City Council, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 14, 2012



# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board  
Visalia Unified School District  
Visalia, California

### Compliance

We have audited the Visalia Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

### Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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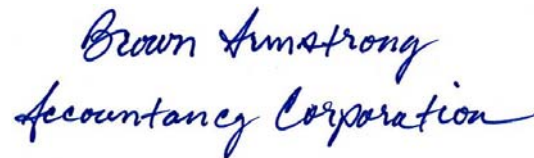
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*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct,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

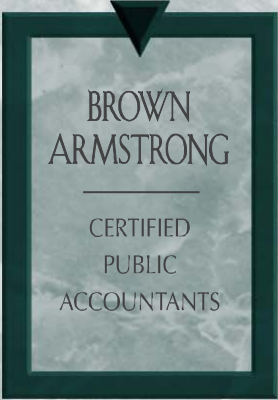
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did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

This report is intended solely for the information and use of the governing board, management, City Council, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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 14, 2012



**BROWN ARMSTRONG**  
*Certified Public Accountants*

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

Governing Board  
 Visalia Unified School District  
 Visalia, California

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 2011-2012*, published by the Education Audit Appeals Panel, as of and for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, published by the Education Audit Appeals Panel. 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 procedures 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 provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of the District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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 for:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials:		
General Requirements	8	Yes

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 STOCKTON, CA 95207  
 TEL 209.451.4833



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement – Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils – Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Contemporaneous Records of Attendance, for charter schools	3	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes – Classroom Based, for charter schools	4	Yes

In our opinion, the District complied, in all material respects, with the State laws and regulations referred to above for the year ended June 30, 2012.

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, the California 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 14, 2012

**FINDINGS AND QUESTIONED COSTS SECTION**

**VISALIA UNIFIED SCHOOL DISTRICT  
FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2012**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major federal 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 major programs: Unqualified

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

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.394	ARRA State Fiscal Stabilization Fund
84.367	Improving Teacher Quality State Grant
84.410	Education Jobs Fund (Ed Jobs)
93.778	Medical Assistance Program: Medi-Cal Administrative Activites
93.778	Medical Assistance Program: Medi-Cal Billing Option

Special Education Cluster

84.027	Special Education Program
84.173	Special Education Preschool Local Entitlement
84.391	ARRA – Special Education IDEA Part B

Dollar threshold used to distinguish between Type A & B programs: \$1,012,780

Auditee qualified as low-risk auditee?  Yes  No

State Awards

Internal control over state programs:

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

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

VISALIA UNIFIED SCHOOL DISTRICT  
FINDINGS AND QUESTIONED COSTS (Continued)  
JUNE 30, 2012

**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, 2012**

None.