VISALIA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
June 30, 2017

VISALIA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017
(Continued)

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VISALIA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Education
Visalia Unified School District
Visalia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Visalia Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Visalia Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Visalia Unified School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 16, the General Fund Budgetary Comparison Schedule, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 55 to 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Visalia Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has 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 it.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of Visalia Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Visalia Unified School District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2017

VISALIA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

This section of Visalia Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

District-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The District has three kinds of funds:

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

- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements using the economic resources measurement focus and the accrual basis of accounting. They offer short- and long-term financial information about the activities that the District operates like a business.

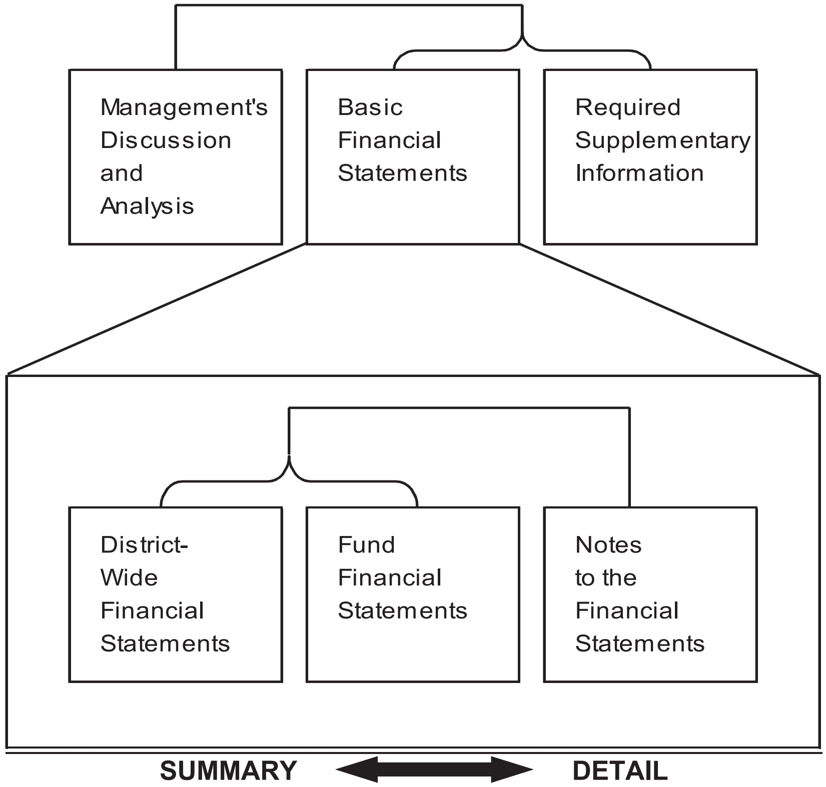
  Our District does not utilize enterprise funds (one type of proprietary fund) at this time, which are the same as business-type activities. We do, however, use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other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

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

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

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

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



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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- This District continued to implement the changes brought by the Local Control Funding Formula, as well as the accountability provisions of the Local Control Accountability Plan first adopted in the 2014-15 fiscal year. The State budget and economy continues the trend of steady growth and the District continues to restore programs and implement changes to improve achievement for all students. The following factors play a significant role in the economic recovery:
    - Stable State and Local Unemployment Rates of 4.3% State, 9.4% Tulare County and 7.6% for Visalia, compared to 5.4% State, 10.7% Tulare County and 8.7% Visalia in the previous fiscal year.
    - Capital gains and personal income tax continue to fuel growth in the California economy and State revenue.
    - UCLA Anderson forecast for continued slow but steady GDP growth in the US economy, as well as the California economy with employment growth of 1.1% and personal income growth of 2.0% in 2017 with the projected unemployment rate falling to 4.5% by 2019.
    - Housing continues to rebound with permits and housing valuation up from prior year lows.

- The District continues to budget using conservative revenue estimates and maintains a reserve and fund balance that enables the District to maintain fiscal solvency. The District maintains a reserve for economic uncertainty of 15% at the close of the 2016-17 fiscal year.

- The Districts overall financial condition has improved with additional revenues from the new funding formula. State revenues from the LCFF are up $73.6 million from FY 2013-14, with $34.6 million of those new revenues dedicated to improving services for our most needy students.

- Pension costs continue to limit the Districts ability to restore and improve programs with $11.4 million in new pension costs since 2013-14, projected to grow to $20.5 million in new costs by 2020-21.

- Construction was completed on Ridgeview Middle School and welcome students in August 2016. Also, construction was near completion on Riverway Elementary School and preparing for students in August 2017.

- Overall, revenues were $340.2 million for the audit year, as compared to overall revenues of $334.7 million in the prior year, up by $5.5 million or 1.64% due to additional state funding from LCFF as well as Medi-Cal Administrative Activities (MAA) reimbursements, as well as Career Technical Education (CTE) incentive grants.

- General Fund revenues for the current year exceeded basic expenditures by $18.6 million; $309.7 million in revenues compared to $291 million in basic expenditures with salaries and benefits accounting for 79.2% of basic expenditures.

- Housing growth in the City of Visalia has shown steady growth in 2016-17; which correlates to the increase in the Districts revenues from Developer Fee Funds. The Developer Fee rate for 2016-17 was at the Level 1 rate of $3.36 per square foot from July - November 2016 and Level 2 rate at $3.75 per square foot from December 2016 – June 2017. Revenues are up for the year at $5.4 million compared to $4.8 million in 2015-16 an increase of 12.50%.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Table A-1
Net Position

(Amounts in millions)	Governmental Activities 2017	Governmental Activities 2016	Dollar Change 2017-2016	Total Percentage Change 2017-2016
Current and other assets	$ 194.9	$ 192.6	$ 2.3	1.19%
Capital assets (less depreciation)	357.8	332.5	25.3	7.61%
Total Assets	552.7	525.1	27.6	5.26%
Current liabilities	31.8	30.4	1.4	4.61%
Long-term liabilities	341.4	291.4	50.0	17.16%
Total Liabilities	373.2	321.8	51.4	15.97%
Deferred Inflows/Outflows of Resources	(49.8)	(4.6)	(45.2)	982.61%
Net position				
Net investment in capital assets	299.6	266.9	32.7	12.25%
Restricted	63.3	80.5	(17.2)	-21.37%
Unrestricted	(133.6)	(139.5)	5.9	-4.23%
Total Net Position	$ 229.3	$ 207.9	$ 21.4	10.29%

Net position. The District's combined net position was $207.9 million for the fiscal year ended June 30, 2016, and $229.3 million for the fiscal year ended June 30, 2017, an increase of $21.4 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 for Measure E Projects.

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
Statement of Activities

(Amount in millions)	Governmental Activities 2017	Governmental Activities 2016	Total Dollar Change 2016-2017	Total Percentage Change 2016-2017
Revenues				
General revenues:				
Federal and State aid not restricted	$ 223.8	$ 222.2	$ 1.6	0.72%
Changes for services	7.8	7.2	0.6	8.33%
Operating grants and contributions	60.7	59.5	1.2	2.02%
Tax revenues	42.3	39.6	2.7	6.82%
Other local sources	5.5	6.2	(0.7)	-11.29%
Total Revenues	340.1	334.7	5.4	1.61%
Expenses				
Instruction-related	229.5	207.7	21.8	10.50%
Student support services	30.6	27.6	3.0	10.87%
Administration	14.2	13.9	0.3	2.16%
Maintenance and operations	30.1	28.2	1.9	6.74%
Other	14.3	12.6	1.7	13.49%
Total Expenses	318.7	290.0	28.7	9.90%
Excess of Revenues over Expenses	$ 21.4	$ 44.7	$ (23.3)	-52.13%

Changes in net position. The District's total revenues increased from $334.7 million at June 30, 2016, to $340.1 million at June 30, 2017, an increase of 1.61 percent (Table A-2). As mentioned earlier, the increase in revenues was primarily due to the increase in revenues received from the State under the LCFF as well as Medi-Cal Administrative Activities (MAA) reimbursements, as well as Career Technical Education (CTE) incentive grants.

The total cost of all programs and services increased 9.9 percent from $290.0 million at June 30, 2016, to $318.7 million at June 30, 2017. The majority of the District's expenses relate to instruction (72.01 percent). The purely administrative activities of the District accounted for just 4.5 percent of total costs.

Overall, total revenues surpassed expenses, increasing net position $21.4 million, a decrease of $23.3 million over last year's increase. With the cyclical challenges of the State's finances, the District will continue to work to strengthen our fiscal foundation for the years when budget reductions may be necessary and deficits may decrease the District's net position.

In Table A-3 below, 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

(Amounts in millions)

	Net Cost of Services			
	2017	2016	$ Change	% Change
Instruction	$ 153.3	$ 140.1	$ 13.2	9.42%
Instruction-related activities (supervision, library, and media)	36.0	29.8	6.2	20.81%
Other pupil services	11.6	9.4	2.2	23.40%
Food services	2.1	1.6	0.5	31.25%
Pupil transportation	4.7	4.9	(0.2)	-4.08%
General administration	12.6	12.6	-	0.00%
Maintenance and operations (plant services)	20.5	20.2	0.3	1.49%
Other	9.4	4.7	4.7	100.00%
Totals	$ 250.2	$ 223.3	$ 26.9	12.05%

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.

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the total net capital assets totaled $332.5 million. At June 30, 2017, the total net capital assets totaled $357.8 million. This amount represents a net increase (including additions, deductions, and depreciation) of $25.3 million, or 7.61 percent, from last year. In November 2012, the voters of Visalia approved Measure E, a $60.1 million bond issue to fund facility improvements at all of our school sites over 10 years old and build a new middle school. The increase is related to those construction projects and work in progress.

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

(Amounts in millions)

	Governmental Activities 2017	Governmental Activities 2016	Total Dollar Change 2017-2016	Total Percentage Change 2017-2016
Land	$ 18.3	$ 18.3	$ -	0.00%
Construction in progress	77.8	52.0	25.8	49.62%
Buildings and improvements	251.8	252.6	(0.8)	-0.32%
Equipment	9.9	9.6	0.3	3.13%
Totals	$ 357.8	$ 332.5	$ 25.3	7.61%

Long-Term Obligations

At June 30, 2016, the District had $293.7 million in long-term obligations outstanding versus $344.5 million at June 30, 2017, an increase of $50.8 million or 17.30 percent. Direct debt decreased by $1.7 million in aggregate due to regular debt service payments. The Districts liabilities for retiree pensions and health insurance increased by $52.2 million which are attributed increases in the Districts Net Pension Liability.

Table A-5
Outstanding Debt at Year-end

(Amounts in millions)

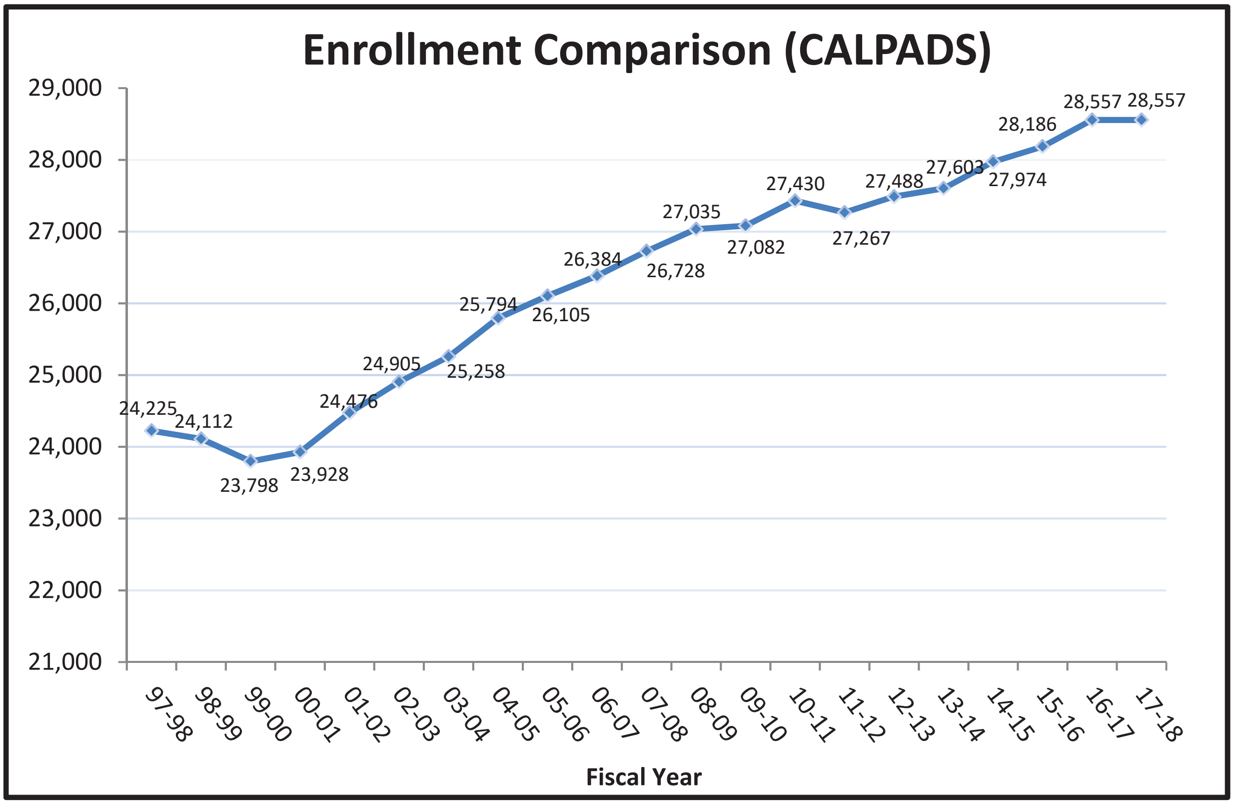
	Governmental Activities 2017	Governmental Activities 2016	Total Dollar Change 2017-2016	Total Percentage Change 2017-2016
General obligation bonds	$ 65.1	$ 65.9	$ (0.8)	-1.21%
Certificates of participation	17.2	17.6	(0.4)	-2.27%
Capitalized lease obligations	0.4	0.9	(0.5)	-55.56%
Loan payable	0.2	0.2	-	100.00%
Other postemployment benefits liability	13.0	12.8	0.2	1.56%
Net Pension Liability	247.3	195.3	52.0	26.63%
Compensated Absences	1.3	1.0	0.3	30.00%
Totals	$ 344.5	$ 293.7	$ 50.8	17.30%

The District's general obligation bond rating continues to be stable (currently A+). The State limits the amount of general obligation debt that Districts 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 $65.1 million is well below the statutorily-imposed limit of approximately $314.9 million.

Other obligations include the net pension liability, 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 popularity in charter schools within the District boundary that trend has stabilized. The District recognized a slight enrollment increase of 371 students to 28,557 in 2016-17, from a total of 28,186 in 2015-16. Additionally, the District's CBEDS to P2 ADA ratio remains above the State average at 96.04%.



SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

School districts continue progress toward full funding under the Local Control Funding Formula (LCFF) model. At the end of the 2016-17 fiscal year, districts, on average were about 94% fully funded. As in prior years, the LCFF gap funding percentage was revised by the state several times during the budget development process. The Governor's January 2016 budget proposal for the 2016-17 year initially proposed closing the gap between the 2015-16 LCFF funding level and full LCFF implementation targets by 49.08%. That figure increased with the May Revise budget proposal to 54.84% and settled slightly lower at 54.18% under the enacted budget signed by the Governor in June 2016. The LCFF gap funding percentage continued to fluctuate slightly during the year based on various factors at the state level with the final number for 2016-17 landing at 56.08% at year end. This final change brought Visalia Unified almost 96% of the way toward full LCFF implementation.

In the first four years under the new funding formula, revenues have increased substantially from the lows of the Great Recession, but challenges still remain. The passage of Proposition 55 in November 2016 provides an extension of the income taxes approved under Proposition 30 in 2012 and provides some revenue stability for education until 2030. However, the flattening of revenues and the increasing costs associated with rising pension and employee costs continue to put pressure on the budget.

Once LCFF reaches full funding, increases will be based on inflation and adjusted by the Cost of Living Adjustment (COLA). For 2017-18 the COLA is just 1.56%; however, pension and other costs are increasing at double that rate of over 3%.

California State Teachers Retirement System (STRS) and California Public Employees Retirement System (PERS) rates paid by the district in 2016-17 increased over the prior year. The STRS rate increases were implemented by the state to offset shortfalls in the retirement program. The percentage of salary contributed to STRS by the district on-behalf of its teachers rose from 10.73% in 2015-16 to 12.58% in 2016-17. School district STRS contribution rates are expected to climb annually until 2020-21 when they are projected to reach 19.10%. PERS retirement rates for classified staff also grew slightly in 2016-17 going from 11.847% in 2015-16 to 13.888% in 2016-17. PERS rates are expected to increase to 19.80% by 2020-21.

The District has taken actions to mitigate these cost increases, opening a pension trust account with one-time funding in 2016-17. In addition, VUSD maintains a reserve for economic uncertainties at 15% per Board policy.

Highlights of 2016-17

- Released a Request for Proposal (RFP) for a new Business Information System
- Grand opening of Ridgeview Middle School
- Completed Phase III of solar shade canopy installation at 11 sites
- First Phase of Prop 39 energy efficiency projects were completed at La Joya and Ops I
- Completed construction on new northwest elementary school, Riverway
- Received Community Eligibility Provision (CEP) for 27 sites, providing no cost breakfast and lunch to students who attend these schools
- Completed upgrade of wireless network with approximately 800 access points in service
- Awarded a five year grant under the Classified Employee Teacher Credential Scholarship Program
- Opened our own Health & Wellness Clinic serving employees, their dependents, and retirees covered under the District's health insurance plan
- Green Acres and Divisadero PULSE programs competed in the Tulare County Step UP Youth Challenge, earning 1st place in their respective divisions and awarded $2,500 to support future community projects
- Students in grades five, eight, and ten took part in the pilot Science tests that are aligned to the new Science standards

- Visalia Partners in Education (VPIE) and the community of Visalia made over $718,000 in monetary and in-kind donations to support Linked Learning Academies and CTE Pathways
- VUSD's CTE Program received the Career Technical Education Incentive Grant from Department of Education totaling $1.7 million to enhance, expand, and improve CTE programs across the district
- Enrolled over 600 students in our early learning programs
- Social Emotional Learning Center (SELC) was the recipient of two generous grants from the Visalia Educational Foundation funding an interactive social emotional curriculum and a sensory room
- Disciplinary incidents that led to suspension have shown a 3% decline from the last school year, with a 49% decline since the 2011-12 school year
- Incidents that led to expulsion declined by over 10% this past school year, and 53% since the 2011-12 school year
- Opened a pension trust account with one-time funding in 2016-17 to mitigate the increase in retirement costs
- Graduation rate remains high, at 98.7%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2017-18 State Budget continues to fund moderate increases to the Local Control Funding Formula (LCFF)for school districts in California. The Governor's plan for the education budget increases revenues under the LCFF by $1.36 billion bringing total education funding to $74.5 billion from the low of $47.3 billion in 2011-12, at the depth of the Great Recession. While this is a much needed increase, it does not cover the ongoing annual cost increases from the retirement systems alone.

In the first four years of the new funding formula, schools have reached nearly 97% of the target towards full LCFF implementation. The passage of Proposition 30 in 2012 and the extension of the income tax portion of that measure in 2016 under Proposition 55, have generated much of the increases in revenues to expedite the implementation.

As a refresher, the LCFF created base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, thus eliminating revenue limits and approximately three-quarters of state categorical (restricted) programs. This streamlined funding results in more flexibility for school leaders, with the assistance of parents and other local stakeholders, to determine the local academic priorities and how the state funding will be used to improve student achievement so that they graduate from high school and are college and career ready.

As part of this funding model, VUSD is required to develop, adopt, and annually update a three-year Local Control and Accountability Plan or LCAP. The LCAP is required to identify annual goals, specific actions, and measure progress for student subgroups across multiple performance indicators, including student academic achievement, school climate, student access to a broad curriculum, and parent engagement. The recent release of the Dashboard will provide these measurements for success under the new funding formula.

Once LCFF reaches full funding, increases are based on the State's Cost of Living Adjustment (COLA). In 2017-18, the COLA is 1.56%. Programs outside of the LCFF (Adult School, State Preschool and Child Nutrition) will also receive the COLA.

Highlights of the VUSD 2017-18 Budget include:

- Implementation of the Local Control and Accountability Plan using supplemental and concentration (targeted) funds to improve services across the District by expanding student opportunities for learning, after-school enrichment and behavior support and intervention.

- Continued planning of Measure E modernization projects and opening of Riverway Elementary School as well as funding for modernization and routine maintenance projects throughout the District.
- Maintenance of the District Reserve for Economic Uncertainty of 13.5%

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

1. Regular Average Daily Attendance (ADA) from 2016-17 P-2 K-12 with zero projected growth for 2017-18 is budgeted at 27,239.25.
2. Cost of Living Adjustment (COLA) increase of 0.00% on all State programs.
3. State Lottery is projected to be $189.00 per ADA, of which $45.00 is restricted to instructional materials, and $144.00 is unrestricted.
4. One-time dollars are not budgeted until received.
5. NCLB is budgeted with a 15% reduction or $1.5 million.

Expenditures are based on the following assumptions:

1. Step increases for certificated, management, and classified are budgeted in full at $3.4 million.
2. Health care costs per employee will be shared by the District and employee as negotiated. The annual cost of health care coverage will be $15,702 per certificated employee, $14,526 per management employee, and either $14,126 or $14,546 per classified employee depending on the option selected. The District will pay $13,853 per certificated employee, $13,731 per management employee and $14,126 per classified employee.
3. Routine Restricted Maintenance Account is funded at 3% of total General Fund expenditures.
4. Contributions to restricted programs to cover projected encroachment will be $29.9 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	$ 174,942,916
Receivables	19,648,168
Stores inventory	326,476
Non-depreciable capital assets (Note 4)	96,143,114
Depreciable capital assets, net of accumulated depreciation (Note 4)	261,667,941
Total assets	552,728,615
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 8 and 9)	56,157,341
LIABILITIES	
Accounts payable	11,613,126
Claims liability (Note 5)	5,758,956
Unearned revenue	11,275,718
Long-term liabilities:	
Due within one year (Note 6)	3,186,210
Due after one year (Note 6)	341,353,285
Total liabilities	373,187,295
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 8 and 9)	6,382,000
NET POSITION	
Net investment in capital assets	299,619,914
Restricted	
Legally restricted programs	21,908,447
Capital projects	4,423,716
Debt service	6,548,537
Self insurance	30,464,226
Unrestricted	(133,648,179)
Total net position	$ 229,316,661

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges For Services	Operating Grants and Contri-butions	Capital Grants and Contri-butions	Governmental Activities
Governmental activities:					
Instruction	$ 185,528,772	$ 439,651	$ 31,838,655	$ -	$ (153,250,466)
Instruction-related services:					
Supervision of instruction	12,672,755	289,137	4,704,951	-	(7,678,667)
Instructional library, media and technology	2,679,985	-	175,664	-	(2,504,321)
School site administration	28,625,335	-	2,761,960	-	(25,863,375)
Pupil services:					
Home-to-school transportation	4,672,915	-	-	-	(4,672,915)
Food services	12,242,260	1,563,210	8,604,769	-	(2,074,281)
All other pupil services	13,730,683	43,700	2,104,542	-	(11,582,441)
General administration:					
Data processing	4,296,328	-	6,462	-	(4,289,866)
All other general administration	9,910,193	104,227	1,450,952	-	(8,355,014)
Plant services	30,079,443	4,385,320	5,191,023	-	(20,503,100)
Ancillary services	8,264,911	-	3,496,445	-	(4,768,466)
Enterprise activities	28,587	-	-	-	(28,587)
Other outgo	2,741,668	971,055	405,475	-	(1,365,138)
Interest on long-term liabilities	3,245,157	-	-	-	(3,245,157)
Total governmental activities	$ 318,718,992	$ 7,796,300	$ 60,740,898	$ -	(250,181,794)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					38,482,301
Taxes levied for debt service					2,748,391
Taxes levied for other specific purposes					1,046,995
Federal and state aid not restricted to specific purposes					223,776,024
Interest and investment earnings					738,549
Interagency revenues					1,341,253
Miscellaneous					3,478,162
Total general revenues					271,611,675
Change in net position					21,429,881
Net position, July 1, 2016					207,886,780
Net position, June 30, 2017					$ 229,316,661

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Special Reserve for Capital Outlay Projects Fund	All Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and investments:				
Cash in County Treasury	$ 91,865,433	$ 22,182,911	$ 15,774,714	$129,823,058
Cash on hand and in banks	8,495	-	37,584	46,079
Cash in revolving fund	33,564	-	-	33,564
Cash with Fiscal Agent	8,820,926	-	-	8,820,926
Receivables	16,828,131	290,000	2,524,927	19,643,058
Due from other funds	2,839,878	3,000,000	29,124	5,869,002
Stores inventory	147,328	-	179,148	326,476
Total assets	$120,543,755	$ 25,472,911	$ 18,545,497	$164,562,163
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 7,897,944	$ 2,312,693	$ 523,280	$ 10,733,917
Unearned revenue	11,154,954	-	120,764	11,275,718
Due to other funds	4,947,071	242	920,472	5,867,785
Total liabilities	23,999,969	2,312,935	1,564,516	27,877,420
Fund balances:				
Nonspendable	180,892	-	179,148	360,040
Restricted	15,279,705	23,159,976	16,801,833	55,241,514
Assigned	36,029,412	-	-	36,029,412
Unassigned	45,053,777	-	-	45,053,777
Total fund balances	96,543,786	23,159,976	16,980,981	136,684,743
Total liabilities and fund balances	$120,543,755	$ 25,472,911	$ 18,545,497	$164,562,163

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - Governmental Funds		$ 136,684,743
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $520,978,922 and the accumulated depreciation is $163,167,867 (Note 4).		357,811,055
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2017 consisted of (Note 6):		
General Obligation Bonds	$ (57,984,971)	
Unamortized premiums	(4,876,568)	
Accreted Interest	(2,199,053)	
Certificates of Participation	(17,215,000)	
Capitalized lease obligation	(444,565)	
State school building loan	(210,000)	
Net pension liability (Note 8 and 9)	(247,343,000)	
Other postemployment benefits (Note 10)	(13,009,918)	
Compensated absences	(1,256,420)	
		(344,539,495)
In the governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(879,209)
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Note 8 and 9).		
Deferred outflows of resources relating to pensions	$ 56,157,341	
Deferred inflows of resources relating to pensions	(6,382,000)	
		49,775,341
Internal service funds are used to conduct certain activities for which costs are charged to other funds. Assets and liabilities are reported within the governmental activities in the Statement of Net Position.		30,464,226
Total net position - governmental activities		$ 229,316,661

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General Fund	Special Reserve for Capital Outlay Projects Fund	All Non-Major Funds	Total Governmental Funds
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	$ 213,705,331	$ -	$ -	$ 213,705,331
Local sources	37,242,906	-	-	37,242,906
Total LCFF	250,948,237	-	-	250,948,237
Federal sources	16,256,180	-	8,982,913	25,239,093
Other state sources	27,148,012	-	7,691,013	34,839,025
Other local sources	15,311,069	925,098	10,815,357	27,051,524
Total revenues	309,663,498	925,098	27,489,283	338,077,879
Expenditures:				
Current:				
Certificated salaries	121,589,551	-	2,660,627	124,250,178
Classified salaries	38,204,652	-	5,933,560	44,138,212
Employee benefits	70,734,373	-	4,109,172	74,843,545
Books and supplies	18,515,932	23,260	5,617,952	24,157,144
Contract services and operating expenditures	27,288,635	168,471	1,632,938	29,090,044
Other outgo	2,634,114	-	-	2,634,114
Capital outlay	11,636,180	14,778,227	11,730,392	38,144,799
Debt service:				
Principal retirement	415,435	-	1,665,000	2,080,435
Interest	16,087	-	2,852,251	2,868,338
Total expenditures	291,034,959	14,969,958	36,201,892	342,206,809
Excess (deficiency) of revenues over (under) expenditures	18,628,539	(14,044,860)	(8,712,609)	(4,128,930)
Other financing (uses) sources:				
Transfers in	855,411	3,000,000	1,228,300	5,083,711
Transfers out	(4,228,300)	-	(855,411)	(5,083,711)
Total other financing (uses) sources	(3,372,889)	3,000,000	372,889	-
Change in fund balances	15,255,650	(11,044,860)	(8,339,720)	(4,128,930)
Fund balances, July 1, 2016	81,288,136	34,204,836	25,320,701	140,813,673
Fund balances, June 30, 2017	$ 96,543,786	$ 23,159,976	$ 16,980,981	$ 136,684,743

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Net change in fund balances - Total Governmental Funds	$ (4,128,930)
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	38,298,377
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(12,976,370)
The proceeds from disposal of capital assets are reported as revenue in the governmental funds, but only the resulting gain or loss is reported in the statement of activities.	(9,966)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	2,080,435
In governmental funds, debt issued at a premium is recognized as an other financing source. In the government-wide statements debt issued at a premium is amortized as interest over the life of the debt (Note 6).	222,742
Accreted interest is an expense that is not recorded in the governmental funds (Note 6).	(622,832)
In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	23,271
In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 6).	(244,829)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	(6,894,629)
In the statement of activities, expenditures related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(197,559)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. The change in net position for the Self-Insurance Fund was:	5,880,171
Change in net position of governmental activities	$ 21,429,881

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2017

ASSETS	
Current assets:	
Cash and investments:	
Cash in County Treasury	$ 16,652,016
Cash with Fiscal Agent	19,567,273
Receivables	5,110
Total current assets	36,224,399
LIABILITIES	
Current liabilities:	
Claims payable	5,758,956
Due to other funds	1,217
Total liabilities	5,760,173
NET POSITION	
Restricted for Self-Insurance	$ 30,464,226

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN
NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2017

Operating revenues:	
Self-insurance premiums	$ 42,151,783
Other local revenues	26,029
Total operating revenues	42,177,812
Operating expenses:	
Classified salaries	272,320
Employee benefits	142,928
Books and supplies	96
Contract services	36,030,470
Total operating expenses	36,445,814
Operating income	5,731,998
Non-operating income:	
Interest income	148,173
Change in net position	5,880,171
Total net position, July 1, 2016	24,584,055
Total net position, June 30, 2017	$ 30,464,226

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from self-insurance premiums	$ 43,345,971
Cash paid for employee claims benefits	(32,025,432)
Cash paid for salaries and related benefits	(415,248)
Cash paid for other expenses	(4,003,917)
Net cash provided by operating activities	6,901,374
Cash flows provided by investing activities:	
Interest income received	148,173
Increase in cash and investments	7,049,547
Cash and investments, July 1, 2016	29,169,742
Cash and investments, June 30, 2017	$ 36,219,289
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 5,731,998
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in:	
Receivables	50,328
Increase in:	
Claims liability	1,117,831
Due to other funds	1,217
Total adjustments	1,169,376
Net cash provided by operating activities	$ 6,901,374

See accompanying notes to financial statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2017

	Agency Funds
ASSETS	
Cash in county treasury	$ 7,028,538
Cash on hand and in banks (Note 2)	976,581
Total assets	$ 8,005,119
LIABILITIES	
Due to other	6,498,230
Due to student groups	1,506,889
Total liabilities	$ 8,005,119

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Visalia Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity: The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities.

The District and the Visalia Unified School District Financing Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of the *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, for inclusion of the Corporation as a blended component unit of the District. Accordingly, the financial activities of the Corporation have been included in the basic financial statements of the District.

The following are those aspects of the relationship between the District and the Corporation which satisfy *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, as amended:

A - Manifestation of Oversight

- The Corporation's Board of Directors were appointed by the District's Board of Education.
- The Corporation has no employees. The District's Superintendent and Assistant Superintendents function as agents of the Corporation. Neither receives additional compensation for work performed in this capacity.
- The District exercises significant influence over operations of the Corporation as it is anticipated that the District will be sole lessee of all facilities owned by the Corporation.

B - Accounting for Fiscal Matters

- All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
- Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.
- It is anticipated that the District's lease payments will be the sole revenue source of the Corporation.
- The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C - Scope of Public Service and Financial Presentation

- The Corporation was created for the sole purpose of financially assisting the District.
- The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all Corporation facilities. When the Corporation's Certificates of Participation have been paid with state reimbursements and the District's developer fees, title of all Corporation property will pass to the District for no additional consideration.
- The Corporation's financial activity is included in the basic financial statements as the Capital Facilities and Debt Service Funds. Certificates of Participation issued by the Corporation are included in the government-wide financial statements.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Assets and Liabilities.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting: The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - <u>Major Funds</u>

General Fund - The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Reserve for Capital Outlay Projects Fund - The Special Reserve for Capital Outlay Projects Fund is a capital projects fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for capital outlay purposes.

B - <u>Other Funds</u>

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Adult Education, Child Development and Cafeteria Funds.

Capital Projects Funds - Capital Projects Funds are used to account for resources used for the acquisition or construction of capital facilities by the District. This classification includes the Building, Capital Facilities, and the County School Facilities Funds.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This classification includes the Bond Interest and Redemption and Debt Service Funds.

Self-Insurance Fund - The Self-Insurance Fund is a proprietary fund used to account for the District's self-insured health and welfare plan.

Agency Funds - Agency Funds are Fiduciary Funds which are used to account for assets of others, for which the District has an agency relationship with the activity of the fund. This classification consists of the Warrant/Pass-Through and the Associated Student Body (ASB) Funds.

<u>Basis of Accounting</u>: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

<u>Accrual</u>: Governmental activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

<u>Modified Accrual</u>: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting: By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

Receivables: Receivables are made up principally of amounts due from the State of California. The District has determined that no allowance for doubtful accounts was necessary as of June 30, 2017.

Stores Inventory: Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Capital Assets: The District maintains a capitalization threshold of an original cost of $5,000 for equipment and $15,000 for buildings and improvements. When purchased, such assets are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation of capital assets is computed and recorded using the straight-line method. Estimated useful lives for 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.

Compensated Absences: Compensated absences totaling $1,256,420 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as a operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRP and PERF B employees, when the employee retires.

Unearned Revenue: Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

Interfund Activity: Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Custodial Relationships: The Agency Funds represent the assets and liabilities of various student organizations within the District. As the funds are custodial in nature, no measurement of operating results is involved.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred outflow of resources related to the recognition of the pension liability reported in the statement of net position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value. Investments are reported at fair value. The following is a summary of pension amounts in aggregate:

	STRP	PERF B	Total
Deferred outflows of resources	$ 35,465,634	$ 20,691,707	$ 56,157,341
Deferred inflows of resources	$ 4,529,000	$ 1,853,000	$ 6,382,000
Net pension liability	$185,666,000	$ 61,677,000	$247,343,000
Pension expense	$ 27,949,642	$ 9,035,486	$ 36,985,128

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets: Consist of capital assets, net of accumulated depreciation, reduced by outstanding related debt and adjusted for unspent debt proceeds and deferred outflows/inflows resulting from refunding debt instruments.

2. Restricted Net Position: Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restriction for debt service represents the portion of net position which the District plans to expend on debt repayment. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for self-insurance represents the portion of net position restricted for self-insurance payments. It is the District's policy to first spend restricted net position when allowable expenditures are incurred.

3. Unrestricted Net Position: All other net position that do not meet the definitions of "restricted" or "net investments in capital assets".

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide, proprietary fund and fiduciary fund statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2017 there were no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances. At June 30, 2017, the Board of Education has designated the Chief Financial Officer with the authority to assign fund balances.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Policy: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2017, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of January 1. Taxes are due in two installments on or before November 15 and March 15. Unsecured property taxes are due in one installment on or before August 31. The County of Tulare bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. All encumbrances are liquidated as of June 30.

Eliminations and Reclassifications: In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates: The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

(Continued)

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2017 are reported at fair value and consisted of the following:

	Governmental Funds	Proprietary Fund	Fiduciary Activities
Pooled Funds:			
Cash in County Treasury	$ 129,823,058	$ 16,652,016	$ 7,028,538
Deposits:			
Cash on hand and in banks	46,079	-	976,581
Cash in revolving fund	33,564	-	-
Investments:			
Cash with Fiscal Agent	8,820,926	19,567,273	-
Total cash and investments	$ 138,723,627	$ 36,219,289	$ 8,005,119

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Tulare County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's prorata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

In accordance with applicable state laws, the Tulare County Treasurer may invest in derivative securities. However, at June 30, 2017, the Tulare County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2017, the carrying amount of the District's accounts was $1,056,224 and the bank balance was $1,194,059. The total uninsured bank balance at June 30, 2017 was $287,495.

Investments: The Cash with Fiscal Agent in the General Fund represents funds held for future Pension costs. These amounts are held in a trust administered by the Public Agency Retirement Services ("PARS") and have been recorded on the amortized cost basis.

The Cash with Fiscal Agent in the Proprietary Fund represents cash segregated for the future payment of self-insured benefits. These amounts are held by a third party custodian in the District's name, and are recorded on the amortized cost basis.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2017, the District had no concentration of credit risk.

(Continued)

NOTE 3 - INTERFUND TRANSACTIONS

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the funds which incur payroll costs, respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables: Individual interfund receivable and payable balances at June 30, 2017 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	$ 2,839,878	$ 4,947,071
Special Reserve for Capital Outlay Projects	3,000,000	242
Non-Major Funds:		
Adult Education	-	232,525
Child Development	-	115,870
Cafeteria	29,124	572,077
Proprietary Funds:		
Self-Insurance	-	1,217
Totals	$ 5,869,002	$ 5,869,002

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Transfers for the 2016-2017 fiscal year were as follows:

Transfer from the General Fund to the Special Reserve for Capital Outlay Projects Fund to support construction costs.	$ 3,000,000
Transfer from the General Fund to the Debt Service Fund for Certificate of Participation payment.	1,082,863
Transfer from the Cafeteria Fund to the General Fund for indirect costs support.	559,998
Transfer from the Adult Education Fund to the General Fund for indirect costs support.	213,201
Transfer from the General Fund to the Cafeteria Fund for nutritional services support.	145,437
Transfer from the Child Development Fund to the General Fund for indirect costs support.	82,212
	$ 5,083,711

(Continued)

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2017 is shown below:

Governmental Activities	Balance July 1, 2016	Additions	Transfers and Deductions	Balance June 30, 2017
Non-depreciable:				
Land	$ 18,255,539	$ 75,488	$ -	$ 18,331,027
Work-in-process	51,984,347	27,953,634	(2,125,894)	77,812,087
Depreciable:				
Buildings and improvements	381,632,802	8,236,957	2,125,894	391,995,653
Furniture and equipment	31,837,426	2,032,298	(1,029,569)	32,840,155
Totals, at cost	483,710,114	38,298,377	(1,029,569)	520,978,922
Less accumulated depreciation:				
Buildings and improvements	(129,027,256)	(11,163,004)	-	(140,190,260)
Furniture and equipment	(22,183,844)	(1,813,366)	1,019,603	(22,977,607)
Total accumulated depreciation	(151,211,100)	(12,976,370)	1,019,603	(163,167,867)
Capital assets, net	$ 332,499,014	$ 25,322,007	$ (9,966)	$ 357,811,055

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 8,295,981
Instruction supervision and administration	414,942
Instruction library, media, and technology	105,359
School site administration	1,065,261
Home-to-school transportation	161,686
Food services	245,248
All other pupil services	523,990
Ancillary services	124,601
Enterprise activities	16,123
All other general administration	238,502
Data processing	118,988
Plant services	1,665,689
Total depreciation expense	$ 12,976,370

(Continued)

NOTE 5 - RISK MANAGEMENT/CLAIMS LIABILITY

The District's risk management activities for employee health benefits are recorded in the Self-Insurance Fund. District exposure to workers' compensation claims and property/liability are provided for through the purchase of insurance from a joint powers entity, Self-Insured Schools of California III (see Note 11). 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. The Self-Insurance fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. Coverage amounts over property and liability, $250,000,000 and $50,000,000 respectively, have remained unchanged. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The liabilities for unpaid claims and claim adjustment expenses are as follows:

	June 30, 2017	June 30, 2016
Unpaid claim and claim adjustment expenses, beginning of year	$ 4,641,125	$ 5,214,094
Total incurred claims and claim adjustment expenses	37,144,480	35,100,544
Total payments	(36,026,649)	(35,673,513)
Total unpaid claims and claim adjustment expenses at end of year	$ 5,758,956	$ 4,641,125

NOTE 6 - LONG-TERM LIABILITIES

General Obligation Bonds: On April 1, 2010, the District issued 2010 General Obligation Refunding Bonds totaling $16,685,000. The proceeds from the 2010 Refunding Bonds were used to advance refund the District's Election of 1999 Series A, Election of 1999 Series B, and Election of 1999 Series C General Obligation Bonds. As a result of the refunding, certain maturities of the Series A, Series B and Series C GO Bonds, totaling $7,710,000, $4,210,000, and $5,475,000, respectively, were considered to be defeased. As of June 30, 2017, no amounts of the refunded bonds remain outstanding. The 2010 Refunding Bonds bear interest at rates ranging from 2.0% to 4.0% and are scheduled to mature through August 2017 as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 830,000	$ 16,600	$ 846,600

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

On April 25, 2013, the District issued Election of 2012, Series 2013 General Obligation Bonds totaling $33,999,971. The Bonds were comprised of $22,725,000 which were issued as Current Interest Bonds, and $11,274,971 which were issued as Capital Appreciation Bonds. The proceeds of the Bonds are being used to update and construct District facilities. The Bonds bear interest at rates ranging from 4.00% to 5.35% and mature through August 2043, as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 550,000	$ 962,263	$ 1,512,263
2019	290,000	934,763	1,224,763
2020	85,000	920,263	1,005,263
2021	1,170,000	916,013	2,086,013
2022	1,170,000	857,513	2,027,513
2023-2027	5,674,535	5,100,503	10,775,038
2028-2032	4,041,616	7,773,384	11,815,000
2033-2037	3,619,103	10,235,897	13,855,000
2038-2042	9,344,717	5,932,083	15,276,800
2043-2044	5,470,000	386,500	5,856,500
	$ 31,414,971	$ 34,019,182	$ 65,434,153

On June 18, 2015, the District issued Election of 2012, Series 2015 General Obligation Bonds, totaling $26,100,000. The proceeds of the Bonds are being used to fund the modernization of existing schools and construction of new facilities. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through August 2040, as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 1,045,000	$ 1,120,175	$ 2,165,175
2019	1,350,000	1,060,300	2,410,300
2020	700,000	1,009,050	1,709,050
2021	425,000	980,925	1,405,925
2022	570,000	956,050	1,526,050
2023-2027	3,595,000	4,286,875	7,881,875
2028-2031	5,110,000	3,202,375	8,312,375
2033-2037	6,365,000	1,972,700	8,337,700
2038-2041	6,580,000	551,800	7,131,800
	$ 25,740,000	$ 15,140,250	$ 40,880,250

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Certificates of Participation: In June 2015, the District issued Certificates of Participation (2015 COPs) in the amount of $18,435,000. The 2015 COPs bear interest at rates ranging from 3.0% to 5.0% and mature through September 1, 2038. Proceeds from the issuance of the 2015 COPs were used for the acquisition and improvement of District property and facilities and to refund on a current basis, the outstanding balance of the 2005 COPs and the remaining capitalized lease obligation for the Visalia Charter Independent School building.

Scheduled payments for the 2015 COPs are as follows:

Year Ending June 30,	COPs Payments
2018	$ 1,120,113
2019	1,163,163
2020	1,206,463
2021	1,252,063
2022	1,291,288
2023-2027	6,718,538
2028-2032	5,852,534
2033-2037	4,718,069
2038-2039	1,426,600
Total payments	24,748,831
Less amount representing interest	(7,533,831)
Net present value of minimum payments	$ 17,215,000

Capitalized Lease Obligations: The District leases a building, print shop, and buses under agreements which provide either (a) for title to pass upon expiration of the lease period or (b) provide the District with a purchase agreement upon the expiration of the lease period. As of June 30, 2017, the historical cost of capital assets acquired in connection with the leases totaled $719,782 and the accumulated depreciation was $6,049.

Future yearly payments on the capitalized lease obligations are as follows:

Year Ending June 30,	Lease Payments
2018	$ 153,681
2019	153,681
2020	153,683
Total payments	461,045
Less amount representing interest	(16,480)
Net present value of minimum lease payments	$ 444,565

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2017 is shown below:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	$ 59,249,971	$ -	$ 1,265,000	$ 57,984,971	$ 2,425,000
Unamortized premiums	5,099,310	-	222,742	4,876,568	166,105
Accreted interest	1,576,221	622,832	-	2,199,053	-
Certificates of Participation	17,615,000	-	400,000	17,215,000	450,000
Capitalized lease obligations	860,000	-	415,435	444,565	145,105
State school building loan	210,000	-	-	210,000	-
Net pension liability (Note 8 & 9)	195,322,000	52,021,000	-	247,343,000	-
Other postemployment benefits (Note 10)	12,765,089	8,213,772	7,968,943	13,009,918	-
Compensated absences	1,058,861	197,559	-	1,256,420	-
	$ 293,756,452	$ 61,055,163	$ 10,272,120	$ 344,539,495	$ 3,186,210

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Debt Service Fund. Payments on the capitalized lease obligations and the state school building loan are made from the General Fund. Payments on other postemployment benefits, net pension liability and compensated absences are made from the fund for which the related employee worked.

NOTE 7 - FUND BALANCES

Fund balances, by category, at June 30, 2017 consisted of the following:

	General Fund	Special Reserve for Capital Outlay Projects Fund	All Non-Major Funds	Total
Nonspendable:				
Revolving cash fund	$ 33,564	$ -	$ -	$ 33,564
Stores inventory	147,328	-	179,148	326,476
Subtotal nonspendable	180,892	-	179,148	360,040
Restricted:				
Legally restricted programs	15,279,705	-	6,449,594	21,729,299
Capital projects	-	23,159,976	3,803,702	26,963,678
Debt service	-	-	6,548,537	6,548,537
Subtotal restricted	15,279,705	23,159,976	16,801,833	55,241,514
Assigned:				
Other postemployment benefits	16,113,555	-	-	16,113,555
Pension trust account	6,535,200	-	-	6,535,200
Reserve for Local Control Accountability Plan	3,590,970	-	-	3,590,970
Capital projects	1,807,865	-	-	1,807,865
Site level programs	1,563,501	-	-	1,563,501
Charter schools	1,272,377	-	-	1,272,377
Reserve for textbooks adoption/library	1,250,000	-	-	1,250,000
Reserve for anticipated Federal program reductions	1,200,000	-	-	1,200,000
Other assignments	2,695,944	-	-	2,695,944
Subtotal assigned	36,029,412	-	-	36,029,412
Unassigned:				
Designated for economic uncertainty	44,440,410	-	-	44,440,410
Undesignated	613,367	-	-	613,367
Subtotal unassigned	45,053,777	-	-	45,053,777
Total fund balances	$ 96,543,786	$ 23,159,976	$ 16,980,981	$ 136,684,743

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at http://www.calstrs.com/comprehensive-annual-financial-report.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2016-17.

In general, member contributions cannot increase unless members are provided with some type of “comparable advantage” in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this “comparable advantage,” the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 12.58 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

Effective Date	Prior Rate	Increase	Total
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed $15,332,634 to the plan for the fiscal year ended June 30, 2017.

State - 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047. The CalSTRS state contribution rates effective for fiscal year 2016-17 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 4.811 percent on July 1, 2017, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding(1)	Total State Appropriation to DB Program
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017	2.017%	4.811%(2)	2.50%	9.328%
July 01, 2018 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(3)	2.50%	4.517%(3)

(1) This rate does not include the $72 million reduction in accordance with Education Code Section 22954.
(2) During its April 2017 meeting, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2017.
(3) The CalSTRS board has limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	$ 185,666,000
State's proportionate share of the net pension liability associated with the District	105,706,000
Total	$ 291,372,000

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2016, the District's proportion was 0.230 percent, which was an increase of 0.005 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $27,949,642 and revenue of $8,991,156 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 4,529,000
Net differences between projected and actual earnings on investments	14,760,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	5,373,000	-
Contributions made subsequent to measurement date	15,332,634	-
Total	$ 35,465,634	$ 4,529,000

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

$15,332,634 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2018	$ 499,483
2019	$ 499,483
2020	$ 8,671,834
2021	$ 5,685,600
2022	$ 149,100
2023	$ 98,500

Differences between expected and actual experience and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earrings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis and June 30, 2015 Actuarial Program Valuations for more information.

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	6.30%
Private Equity	13	9.30
Real Estate	13	5.20
Inflation Sensitive	4	3.80
Fixed Income	12	0.30
Absolute Return/Risk Mitigating Strategies	9	2.90
Cash / Liquidity	2	(1.00)

* 20-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$267,215,000	$185,666,000	$117,936,000

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer's Retirement Fund B (PERF B) is administered by the California Public Employees' Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2016.pdf.

Benefits Provided: The benefits for the defined benefit plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to $863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2017 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2016-17.

Employers - The employer contribution rate was 13.888 percent of applicable member earnings.

The District contributed $5,766,707 to the plan for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of $61,677,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2016, the District's proportion was 0.312 percent, which was an increase of 0.014 percent from its proportion measured as of June 30, 2015.

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

For the year ended June 30, 2017, the District recognized pension expense of $9,035,486. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,653,000	$ -
Changes of assumptions	-	1,853,000
Net differences between projected and actual earnings on investments	9,570,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	2,702,000	-
Contributions made subsequent to measurement date	5,766,707	-
Total	$ 20,691,707	$ 1,853,000

$5,766,707 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2018	$ 2,705,074
2019	$ 2,675,074
2020	$ 5,194,052
2021	$ 2,497,800

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return
Global Equity	51%	5.25%
Global Debt Securities	20	0.99
Inflation Assets	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	1	(0.55)

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS' website.

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 92,022,000	$ 61,677,000	$ 36,408,000

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8 and 9, the District provides post-employment health care benefits to all employees who retire from the District on or after attaining age 55 with at least 15 years of service, in accordance with contracts between the District and employee groups. The District's contribution is the amount contributed on behalf of the active member, excluding life insurance, and ending at age 65. Currently, 311 active employees meet those eligibility requirements. Certificated unit members working at least 50% of full-time are not entitled to District-paid retiree benefits. For 2016-17 this amount is $1,030 per year plus $760 per year for a covered spouse plus $190 per covered dependent for a maximum of three dependents. Management retirees pay $555 per year. Classified unit members working at least 3 hours but less than 4 hours per day received a 25% District contribution upon retirement; those working at least 4 hours but less than 5 hours per day received a 50% District contribution; and those working at least 5 hours but less than 6 hours per day received a 75% contribution upon retirement. For 2016-17, classified retirees selecting to buy up the more expensive option ("Option B") must pay $408 per year towards their health benefits. The OPEB plan is currently operated as a single employer pay-as-you-go plan and does not issue stand-alone financial statements.

(Continued)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 8,157,885
Interest on net OPEB obligation	638,254
Adjustment to annual required contribution	(582,367)
Annual OPEB cost (expense)	8,213,772
Contributions made	(7,968,943)
Increase in net OPEB obligation	244,829
Net OPEB obligation - beginning of year	12,765,089
Net OPEB obligation - end of year	$ 13,009,918

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, 2017 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 9,028,827	89.2%	$ 11,808,139
June 30, 2016	$ 9,014,204	89.4%	$ 12,765,089
June 30, 2017	$ 8,213,772	97.0%	$ 13,009,918

As of July 1, 2016, the most recent actuarial valuation date, the plan was 2.2 percent funded. The actuarial accrued liability for benefits was $91.6 million, and the actuarial value of assets was $2.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $89.6 million. The covered payroll (annual payroll of active employees covered by the Plan) was $141 million, and the ratio of the UAAL to the covered payroll was 63.7 percent.

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

(Continued)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 8 percent. Both rates included a 2.75 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 30 years.

NOTE 11 - JOINT POWERS AUTHORITIES

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 District's Self-Insurance Authority (TCSDIA), the Protected Insurance Program for Schools (PIPS), and Nor-Cal Relief (NCR) public entity risk polls. The District pays an annual premium to each entity for its excess health, worker's 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 Visalia Civic Facilities Authority Joint Powers Authority (VCFJPA). No audited financial information is available for the VCFJPA as of June 30, 2017 however the financial activity of the JPA is not expected to be significant to the District. There have been no significant reductions in insurance coverage from coverage provided in the prior year.

Condensed audited financial information for the District's JPAs at June 30, 2017 for NCR, June 30, 2016 (most recent information available) for SELF, TCSIG, TCSDSIA, PIPS, and September 30, 2016 (most recent information available) for SISC III are as follows:

	SELF	SISC III	TCSIG	TCSDSIA	PIPS	NCR
Total assets	$ 138,820,266	$ 430,046,455	$ 2,819,058	$ 1,549,565	$ 117,633,714	$ 75,820,380
Deferred outflows of resources	$ 266,414	$ -	$ -	$ -	$ -	$ -
Total liabilities	$ 117,306,926	$ 167,458,724	$ 1,556,138	$ 530,752	$ 104,282,740	$ 59,774,301
Deferred inflows of resources	$ 245,133	$ -	$ -	$ -	$ -	$ -
Net position	$ 21,534,621	$ 262,587,731	$ 1,262,920	$ 1,018,813	$ 13,350,974	$ 16,046,079
Total revenues	$ 13,898,598	$ 1,902,860,920	$ 18,832,757	$ 3,042,855	$ 265,453,036	$ 53,217,025
Total expenses	$ 24,553,606	$ 1,837,098,521	$ 19,084,115	$ 2,772,146	$ 262,540,194	$ 52,877,526
Change in net position	$ (10,655,008)	$ 65,762,399	$ (251,358)	$ 270,709	$ 2,912,842	$ 339,499

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements of future revenue offsets subsequently determined will not have a material effect on the District's financial position or results of operations.

Construction Commitments: As of June 30, 2017, the District has $5.3 million in outstanding commitments on construction contracts.

REQUIRED SUPPLEMENTARY INFORMATION

VISALIA UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2017

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	$ 216,261,685	$ 213,705,331	$ 213,705,331	$ -
Local sources	31,871,268	37,242,906	37,242,906	-
Total LCFF	248,132,953	250,948,237	250,948,237	-
Federal sources	18,207,070	16,450,264	16,256,180	(194,084)
Other state sources	21,021,993	27,148,012	27,148,012	-
Other local sources	11,381,630	15,116,978	15,311,069	194,091
Total revenues	298,743,646	309,663,491	309,663,498	7
Expenditures:				
Current:				
Certificated salaries	123,228,905	121,589,551	121,589,551	-
Classified salaries	38,576,579	38,204,652	38,204,652	-
Employee benefits	71,598,631	70,734,373	70,734,373	-
Books and supplies	24,350,207	18,515,932	18,515,932	-
Contract services and operating expenditures	24,232,096	27,288,635	27,288,635	-
Other outgo	2,707,489	1,778,703	2,634,114	(855,411)
Capital outlay	4,171,525	11,636,180	11,636,180	-
Debt service:				
Principal retirement	531,151	415,435	415,435	-
Interest	100,372	16,087	16,087	-
Total expenditures	289,496,955	290,179,548	291,034,959	(855,411)
Excess of revenues over expenditures	9,246,691	19,483,943	18,628,539	(855,404)
Other financing (uses) sources:				
Transfers in	695,781	1,861,555	855,411	(1,006,144)
Transfers out	(1,134,637)	(6,089,854)	(4,228,300)	1,861,554
Total other financing (uses) sources	(438,856)	(4,228,299)	(3,372,889)	855,410
Change in fund balance	8,807,835	15,255,644	15,255,650	6
Fund balance, July 1, 2016	81,288,136	81,288,136	81,288,136	-
Fund balance, June 30, 2017	$ 90,095,971	$ 96,543,780	$ 96,543,786	$ 6

See accompanying note to required supplementary information.

VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
For the Year Ended June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	$ -	$ 58,891,761	$ 58,891,761	0%	$ 112,489,000	52.4%
July 1, 2010	$ -	$ 66,291,096	$ 66,291,096	0%	$ 107,044,000	61.9%
July 1, 2012	$ -	$ 69,837,766	$ 69,837,766	0%	$ 113,378,000	61.6%
July 1, 2014	$ 2,064,156	$ 78,543,166	$ 76,479,010	2.7%	$ 130,681,000	58.5%
July 1, 2016	$ 1,999,584	$ 91,575,718	$ 89,576,134	2.2%	$ 140,542,000	63.7%

Schedule of Employer Contributions

Actuarial Valuation Date	Annual Required Contribution	Contributions	Percentage of ARC Contributed
July 1, 2008	$ 7,338,233	$ 3,172,610	43%
July 1, 2010	$ 7,636,350	$ 6,490,518	85%
July 1, 2012	$ 8,125,805	$ 8,419,051	104%
July 1, 2014	$ 9,191,936	$ 8,057,254	88%
July 1, 2016	$ 8,157,885	$ 7,968,943	98%

See accompanying note to required supplementary information.

VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2017

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.220%	0.225%	0.230%
District's proportionate share of the net pension liability	$128,708,000	$151,391,000	$185,666,000
State's proportionate share of the net pension liability associated with the District	77,720,000	80,069,000	105,706,000
Total net pension liability	$206,428,000	$231,460,000	$291,372,000
District's covered payroll	$ 98,100,000	$104,372,000	$114,403,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.285%	0.298%	0.312%
District's proportionate share of the net pension liability	$ 32,390,000	$ 43,931,000	$ 61,677,000
District's covered payroll	$ 29,950,000	$ 32,996,000	$ 37,465,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	108.15%	133.14%	164.63%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017
Contractually required contribution	$ 9,268,239	$ 12,275,486	$ 15,332,634
Contributions in relation to the contractually required contribution	(9,268,239)	(12,275,486)	(15,332,634)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$104,372,000	$114,403,000	$121,881,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%

All years prior to 2015 are not available.

(Continued)

VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2017

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017
Contractually required contribution	$ 3,883,945	$ 4,438,484	$ 5,766,707
Contributions in relation to the contractually required contribution	(3,883,945)	(4,438,484)	(5,766,707)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 32,996,000	$ 37,465,000	$ 41,523,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%

All years prior to 2015 are not available.

See accompanying note to required supplementary information,

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as accounting standards generally accepted in the United States of America (GAAP).

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

C - Schedule of the District’s Proportionate Share of the Net Pension Liability

The Schedule of the District’s Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District’s Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D – Schedule of the District's Contributions

The Schedule of the District's Contributions is presented to illustrate the District’s required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E – Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65 and 7.65 percent in the June 30, 2013, 2014 and 2015 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR FUNDS
June 30, 2017

	Adult Education Fund	Child Develop-ment Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total
ASSETS									
Cash in County Treasury	$ 4,807,886	$ 183,660	$ 558,340	$ 432,227	$ 3,040,549	$ 203,515	$ 6,548,537	$ -	$ 15,774,714
Cash on hand and in banks	8,134	-	29,450	-	-	-	-	-	37,584
Receivables	303,483	418,869	1,296,492	-	506,083	-	-	-	2,524,927
Store inventory	-	-	179,148	-	-	-	-	-	179,148
Due from other funds	-	-	29,124	-	-	-	-	-	29,124
Total assets	$ 5,119,503	$ 602,529	$ 2,092,554	$ 432,227	$ 3,546,632	$ 203,515	$ 6,548,537	$ -	$ 18,545,497
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	$ 73,847	$ 23,696	$ 47,065	$ 75,176	$ 303,496	$ -	$ -	$ -	$ 523,280
Unearned revenue	-	120,764	-	-	-	-	-	-	120,764
Due to other funds	232,525	115,870	572,077	-	-	-	-	-	920,472
Total liabilities	306,372	260,330	619,142	75,176	303,496	-	-	-	1,564,516
Fund balances:									
Nonspendable	-	-	179,148	-	-	-	-	-	179,148
Restricted	4,813,131	342,199	1,294,264	357,051	3,243,136	203,515	6,548,537	-	16,801,833
Total fund balances	4,813,131	342,199	1,473,412	357,051	3,243,136	203,515	6,548,537	-	16,980,981
Total liabilities and fund balances	$ 5,119,503	$ 602,529	$ 2,092,554	$ 432,227	$ 3,546,632	$ 203,515	$ 6,548,537	$ -	$ 18,545,497

VISALIA UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2017

	Adult Education Fund	Child Develop-ment Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total
Revenues:									
Federal sources	$ 535,679	$ -	$ 8,447,234	-	$ -	$ -	$ -	$ -	$ 8,982,913
Other state sources	5,278,101	1,902,167	510,745	-	-	-	-	-	7,691,013
Other local sources	836,460	12,581	1,695,006	28,704	5,419,527	2,523	2,820,556	-	10,815,357
Total revenues	6,650,240	1,914,748	10,652,985	28,704	5,419,527	2,523	2,820,556	-	27,489,283
Expenditures:									
Current:									
Certificated salaries	2,483,539	177,088	-	-	-	-	-	-	2,660,627
Classified salaries	703,982	1,088,364	4,141,214	-	-	-	-	-	5,933,560
Employee benefits	1,328,565	350,217	2,430,390	-	-	-	-	-	4,109,172
Books and supplies	486,691	57,059	5,063,128	11,074	-	-	-	-	5,617,952
Contract services and operating expenditures	841,346	66,407	181,966	259,103	284,116	-	-	-	1,632,938
Capital outlay	127,120	3,200	14,067	4,477,314	7,107,941	750	-	-	11,730,392
Debt service:									
Principal retirement	-	-	-	-	-	-	1,265,000	400,000	1,665,000
Interest	-	-	-	-	-	-	2,169,388	682,863	2,852,251
Total expenditures	5,971,243	1,742,335	11,830,765	4,747,491	7,392,057	750	3,434,388	1,082,863	36,201,892
Excess (deficiency) of revenues over (under) expenditures	678,997	172,413	(1,177,780)	(4,718,787)	(1,972,530)	1,773	(613,832)	(1,082,863)	(8,712,609)
Other financing (uses) sources:									
Transfers in	-	-	145,437	-	-	-	-	1,082,863	1,228,300
Transfers out	(213,201)	(82,212)	(559,998)	-	-	-	-	-	(855,411)
Total other financing (uses) sources	(213,201)	(82,212)	(414,561)	-	-	-	-	1,082,863	372,889
Net change in fund balances	465,796	90,201	(1,592,341)	(4,718,787)	(1,972,530)	1,773	(613,832)	-	(8,339,720)
Fund balances, July 1, 2016	4,347,335	251,998	3,065,753	5,075,838	5,215,666	201,742	7,162,369	-	25,320,701
Fund balances, June 30, 2017	$ 4,813,131	$ 342,199	$ 1,473,412	$ 357,051	$ 3,243,136	$ 203,515	$ 6,548,537	$ -	$ 16,980,981

VISALIA UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Student Body Funds				
Elementary Schools				
Assets:				
Cash in County Treasury	$ 243,969	$ 216,396	$ 231,628	$ 228,737
Cash on hand and in banks	8,567	10,788	11,833	7,522
Total assets	$ 252,536	$ 227,184	$ 243,461	$ 236,259
Liabilities:				
Due to student groups	$ 252,536	$ 227,184	$ 243,461	$ 236,259
Middle Schools				
Assets:				
Cash in County Treasury	$ 273,394	$ 455,310	$ 477,935	$ 250,769
Cash on hand and in banks	-	-	-	-
Total assets	$ 273,394	$ 455,310	$ 477,935	$ 250,769
Liabilities:				
Due to student groups	$ 273,394	$ 455,310	$ 477,935	$ 250,769
High Schools				
Assets:				
Cash in County Treasury	$ 52,327	$ 100,187	$ 101,712	$ 50,802
Cash on hand and in banks	978,307	3,395,246	3,404,494	969,059
Total assets	$ 1,030,634	$ 3,495,433	$ 3,506,206	$ 1,019,861
Liabilities:				
Due to student groups	$ 1,030,634	$ 3,495,433	$ 3,506,206	$ 1,019,861
Total Student Body Funds				
Assets:				
Cash in County Treasury	$ 569,690	$ 771,893	$ 811,275	$ 530,308
Cash on hand and in banks	986,874	3,406,034	3,416,327	976,581
Total assets	$ 1,556,564	$ 4,177,927	$ 4,227,602	$ 1,506,889
Liabilities:				
Due to student groups	$ 1,556,564	$ 4,177,927	$ 4,227,602	$ 1,506,889

(Continued)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Warrant/Pass-Through Fund				
Assets:				
Cash in County Treasury	$ 11,962,598	$ 12,411	$ 5,476,779	$ 6,498,230
Cash on hand and in banks	-	-	-	-
Total assets	$ 11,962,598	$ 12,411	$ 5,476,779	$ 6,498,230
Liabilities:				
Due to other funds	$ 11,962,598	$ 12,411	$ 5,476,779	$ 6,498,230
TOTAL AGENCY FUNDS				
Assets:				
Cash in County Treasury	$ 12,532,288	$ 784,304	$ 6,288,054	$ 7,028,538
Cash on hand and in banks	986,874	3,406,034	3,416,327	976,581
Total assets	$ 13,519,162	$ 4,190,338	$ 9,704,381	$ 8,005,119
Liabilities:				
Due to other funds	$ 11,962,598	$ 12,411	$ 5,476,779	$ 6,498,230
Due to student groups	1,556,564	4,177,927	4,227,602	1,506,889
Total liabilities	$ 13,519,162	$ 4,190,338	$ 9,704,381	$ 8,005,119

Visalia Unified School District was organized in 1885 and consists of an area comprising approximately 177 square miles. The District operates 25 elementary schools, 5 middle schools, 4 high schools, an adult school, a continuation high school, and 4 charter schools. There were no changes in District boundaries during the year.

The Board of Education at June 30, 2017 was comprised of the following members:

GOVERNING BOARD

Name	Office	Term Expires
Lucia D. Vazquez	President	2020
William A. Fulmer	Clerk	2020
Patricia M. Griswold	Member	2020
Juan Guerrero	Member	2018
Jim L. Qualls	Member	2018
Charles Ulmschneider	Member	2018
John L. Crabtree	Member	2018

ADMINISTRATION

Todd Oto, Ed. D.
Superintendent

Tamara Ravalin Ed. D.
Assistant Superintendent, Human Resources Development

Robert Gröeber
Assistant Superintendent, Administrative Services

Melanie Stringer
Assistant Superintendent, Instructional Services

Nathan Hernandez
Chief Financial Officer

	Second Period Report (Original)	Second Period Report (Revised)*	Annual Report
DISTRICT			
Certificate #	8C798917	9616C39A	D7DD8C52
Elementary:			
Transitional Kindergarten through Third	8,471	8,472	8,474
Sixth	6,401	6,401	6,399
Seventh and Eighth	4,103	4,104	4,092
Special Education	6	6	6
Total Elementary	18,981	18,983	18,971
Secondary:			
Ninth through Twelfth	7,346	7,347	7,265
Continuation	244	245	242
Total Secondary	7,590	7,592	7,507
District Totals	26,571	26,575	26,478

* Reflects revisions made by the District subsequent to the submission of the original Second Period Report of Attendance, based on an internal review of records.

(Continued)

	Second Period Report	Annual Report
CHARTER SCHOOL - CLASSROOM BASED		
Charter Alternatives Academy		
Certificate #	A329B8CF	8B770889
Fourth through Sixth	1	1
Seventh and Eighth	10	12
Ninth to Twelfth	43	45
Subtotal Charter Alternatives Academy	54	58
Visalia Technical Early College		
Certificate #	3624E8CE	F6B2EA96
Ninth through Twelfth	260	257
Total Charter School Classroom Based	314	315
CHARTER SCHOOL - NON-CLASSROOM BASED		
Charter Home School Academy		
Certificate #	BC390372	2F8FCECB
Transitional Kindergarten through Third	30	31
Fourth through Sixth	28	27
Seventh and Eighth	43	44
Subtotal Charter Home School	101	102
Visalia Charter Independent Study		
Certificate #	62EE62CD	49A05FD6
Seventh and Eighth	1	1
Ninth through Twelfth	494	500
Subtotal Visalia Charter Independent Study	495	501
Total Charter School Non-Classroom Based	596	603

Grade Level	Statutory Minutes Require-ment	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
DISTRICT				
Kindergarten	36,000	50,440	180	In Compliance
Grade 1	50,400	51,892	180	In Compliance
Grade 2	50,400	51,892	180	In Compliance
Grade 3	50,400	51,892	180	In Compliance
Grade 4	54,000	57,440	180	In Compliance
Grade 5	54,000	57,440	180	In Compliance
Grade 6	54,000	57,440	180	In Compliance
Grade 7	54,000	57,440	180	In Compliance
Grade 8	54,000	57,440	180	In Compliance
Grade 9	64,800	65,365	180	In Compliance
Grade 10	64,800	65,365	180	In Compliance
Grade 11	64,800	65,365	180	In Compliance
Grade 12	64,800	65,365	180	In Compliance
CHARTER SCHOOLS				
Charter Alternatives Academy				
Grade 6	54,000	65,350	180	In Compliance
Grade 7	54,000	65,350	180	In Compliance
Grade 8	54,000	65,350	180	In Compliance
Grade 9	64,800	65,350	180	In Compliance
Grade 10	64,800	65,350	180	In Compliance
Grade 11	64,800	65,350	180	In Compliance
Grade 12	64,800	65,350	180	In Compliance
Visalia Technical Early College				
Grade 9	64,800	65,168	180	In Compliance
Grade 10	64,800	65,168	180	In Compliance
Grade 11	64,800	65,168	180	In Compliance
Grade 12	64,800	65,168	180	In Compliance

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
	U.S. Department of Education - Passed through California Department of Education		
	Special Education Cluster:		
84.027	Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	$ 3,991,022
84.027	Special Ed: IDEA Private School Local Assistance	10115	6,165
84.173A	Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13693	884,317
	Subtotal Special Education Cluster		4,881,504
	Adult Education Programs:		
84.002	Adult Education: Adult Secondary Education	13978	281,698
84.002A	Adult Education: Adult Basic Education & ESL	14508	155,205
84.002	Adult Education: Institutionalized Adults	13971	14,347
84.002A	Adult Education: English Literacy & Civics Education Local Grant	14109	36,214
	Subtotal Adult Education Programs		487,464
	Carl D. Perkins Programs:		
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	285,603
84.048	Carl D. Perkins Career and Technical Education: Adult, Section 132 (Vocational Education)	14893	48,215
	Subtotal Carl Perkins Programs		333,818
	Title I Programs:		
84.011	NCLB: Title I, Part C, Migrant Education	14326	187,904
84.011	NCLB: Title I, Part C, Migrant Education Summer Program	10005	97,917
	Subtotal Title I Programs		285,821

(Continued)

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
	U.S. Department of Education - Passed through California Department of Education (Continued)		
	Title III Programs:		
84.365	ESEA: Title III, English Learner Program	14346	$ 632,169
84.365	ESEA: Title III, Immigrant Education Program	15146	21,808
	Subtotal Title III Programs		653,977
84.010	ESEA: Title I, Part A, Basic Grants Low-Income and Neglected	14329	7,119,935
84.367	ESEA: Title II, Part A Improving Teacher Quality Local Grants	14341	1,345,246
84.287	ESEA: Title IV, Part B, 21st Century Community Learning Centers Program	14349	1,370,163
84.060	Indian Education	10011	131,746
84.126A	Rehabilitation Services: Vocational Rehabilitation Grants	*	30,750
	Total U.S. Department of Education		16,640,424
	U.S. Department of Health and Human Services - Passed through California Department of Education		
	Medicaid Cluster:		
93.778	Medi-Cal Billing Option	10013	606,262
	U.S. Department of Agriculture - Passed through California Department of Education		
	Child Nutrition Cluster:		
10.555	National School Lunch Program	13390	6,630,953
10.553	Basic Breakfast	13396	12,810
10.553	Especially Needy Breakfast	13526	1,653,944
	Subtotal Child Nutrition Cluster		8,297,707
10.582	Fresh Fruit and Vegetable Program	14968	149,527
	Total U.S. Department of Agriculture		8,447,234
	Total Federal Programs		$ 25,693,920

* No pass-through identifying number was available for this program.

See accompanying notes to supplementary information.

There were no adjustments proposed to any funds of the District

VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2017
(UNAUDITED)

General Fund	(Budget) 2018	2017	2016	2015
Revenues and other financing sources	$ 304,316,029	$ 310,518,909	$ 306,658,223	$ 253,839,176
Expenditures	299,402,145	291,034,959	271,471,717	240,248,011
Other uses and transfers out	1,256,887	4,228,300	24,934,409	11,902,717
Total outgo	300,659,032	295,263,259	296,406,126	252,150,728
Change in fund balance	$ 3,656,997	$ 15,255,650	$ 10,252,097	$ 1,688,448
Ending fund balance	$ 100,200,783	$ 96,543,786	$ 81,288,136	$ 71,036,039
Available reserves	$ 34,192,846	$ 45,053,777	$ 41,196,494	$ 26,859,421
Designated for economic uncertainties	$ 33,190,050	$ 44,440,410	$ 40,161,612	$ 26,216,305
Undesignated fund balance	$ 1,002,796	$ 613,367	$ 1,034,882	$ 643,116
Available reserves as percentages of total outgo	11.4%	15.3%	13.9%	10.7%
All Funds				
Total long-term liabilities	$ 341,353,285	$ 344,539,495	$ 293,756,452	$ 268,920,775
Average daily attendance at P-2, excluding Charter School	25,975	26,575	26,066	25,802

The General Fund fund balance has increased by $27,196,195 over the past three years. The fiscal year 2017-2018 budget projects an increase of $3,656,997. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2017, the District has met this requirement.

The District has incurred operating surpluses in each of the past three years, and anticipates incurring an operating surplus during the fiscal year ending June 30, 2018.

Total long-term liabilities have increased by $75,618,720 over the past two years, due primarily to the issuance of General Obligation Bonds and Certificates of Participation, as well as changes in the District's Net Pension Liability.

Average daily attendance has increased by 773 over the past year. The District anticipates a decrease of 600 ADA for the 2017-2018 fiscal year.

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
0250 - Charter Home School Academy	Included in District Report
0251 - Charter Alternatives Academy	Included in District Report
0720 - Visalia Charter Independent Study	Included in District Report
1128 - Visalia Technical Education Center	Included in District Report
1870 - Global Learning Charter School*	Separate Report

*Global Learning Charter School became effective 7/1/2017.

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

Average daily attendance 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.

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Visalia Unified School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments,or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2017.

Description	CFDA Number	Amount
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		$ 25,239,093
Add: Medi-Cal Billing Option spent from prior year awards	93.778	454,827
Total Schedule of Expenditure of Federal Awards		$ 25,693,920

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2017-2018 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 required certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2017, the District did not adopt such a program.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education
Visalia Unified School District
Visalia, California

Report on Compliance with State Laws and Regulations

We have audited Visalia Unified School District's compliance with the types of compliance requirements described in the State of California's *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2017.

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	Yes
Annual Instructional Minutes - Classroom-Based, for charter schools	Yes
Charter School Facility Grant Program	No, see below

(Continued)

We did not perform procedures related to Independent Study because the District did not generate any ADA for this program.

We did not perform any procedures related to the Early Retirement Incentive Program because the District did not offer an Early Retirement Incentive Program.

We did not perform any procedures related to Juvenile Court Schools because the District did not operate this program.

We did not perform any procedures related to Middle or Early College High Schools because the District did not operate this program.

We did not perform any procedures related to After School Education and Safety Program: Before School, because the District did not offer a Before School program in the current year.

We did not perform procedures related to Course Based Independent Study because the District did not generate any ADA for this program.

We did not perform procedures related to Immunization as the District has submitted all required immunization assessment reports to the California Department of Public Health.

We did not perform any procedures related to Charter School Facility Grant Program because the District did not operate this program.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on Visalia Unified School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide 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 Visalia Unified School District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Visalia Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Visalia Unified School District's compliance.

Opinion with State Laws and Regulations

In our opinion, Visalia Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2017.

(Continued)

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2017

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*

Board of Education
Visalia Unified School District
Visalia, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Visalia Unified School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Visalia Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

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

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2017

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

Board of Education
Visalia Unified School District
Visalia, California

Report on Compliance for Each Major Federal Program

We have audited Visalia Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Visalia Unified School District's major federal programs for the year ended June 30, 2017. Visalia Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Visalia Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Visalia Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Visalia Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

(Continued)

Report on Internal Control Over Compliance

Management of Visalia Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Visalia Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Visalia Unified School District's internal control over compliance.

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

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2017

FINDINGS AND RECOMMENDATIONS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Noncompliance material to financial statements noted?	______ Yes	X No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ Yes	X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I, Part A, Basic Grants Low-Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	$ 770,818	
Auditee qualified as low-risk auditee?	X Yes	______ No

STATE AWARDS

Type of auditors' report issued on compliance for state programs:	Unmodified

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATUS OF PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2016-001 Condition: At various school sites: • Formal fundraising request forms were not utilized in the selection of items examined during the current year under audit. • Monthly reports of financial transactions were not prepared at the individual club level, for the items examined during the current year. Recommendation: • Formal fundraising requests forms should be prepared and approved by the student council, principal, and District. • Monthly report of financial transactions should be prepared for each club and reviewed by both the club advisor and site Principal.	Implemented.	