

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS
June 30, 2016

VISALIA UNIFIED SCHOOL DISTRICT
Visalia, California

MEASURE E GENERAL OBLIGATION BONDS
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Citizens' Bond
Oversight Committee and the Board of Education
Visalia Unified School District

Report on the Financial Statements

We have audited the accompanying financial statements of Visalia Unified School District (the "District") Measure E General Obligation Bonds activity included in the Building Fund of the District (the "Building Fund"), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion 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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Visalia Unified School District Measure E General Obligation Bonds activity as of June 30, 2016, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the District's Building Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2016, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Building Fund. 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 for the Building Fund. 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 for the Building Fund.



Crowe Horwath LLP

Sacramento, California
January 12, 2017

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2016

ASSETS

Cash and cash equivalents (Note 2)	\$ 8,298,976
Accounts Receivable	<u>169</u>
Total Assets	<u>\$ 8,297,145</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$ 3,221,307
Commitments (Note 6)	-
Fund balance – restricted (Note 3)	<u>5,075,838</u>
Total liabilities and fund balance	<u>\$ 8,297,145</u>

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2016

Revenues:	
Interest income and other local revenue (Note 2)	\$ <u>259,531</u>
Expenditures:	
Materials and supplies	4,794
Other operating expenditures	345,018
Capital outlay	<u>31,678,577</u>
Total expenditures	<u>32,028,389</u>
Deficiency of revenues under Expenditures	(31,768,858)
Other financing sources:	
Proceeds from the issuance of General Obligation bonds	<u>-</u>
Net change in fund balance	
Fund balance, July 1, 2015	<u>36,844,696</u>
Fund balance, June 30, 2016	<u>\$ <u>5,075,838</u></u>

See accompanying notes to financial statements.

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Visalia Unified School District (the “District”) conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with policies and procedures of the California Department of Education’s *California School Accounting Manual*. The activities of Measure E Bonds are recorded in the District’s Building Fund. The accounting policies of the Building Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

Financial Reporting Entity: The financial statements include the activity and balances of the Measure E General Obligation Bonds, only. The activities of the Measure E General Obligation Bonds are recorded in the District’s Building Fund (Fund 21). These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

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

The financial statements represent the Building Fund of the District and 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.

Cash and Cash Equivalents: For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Tulare County Treasury are considered cash equivalents.

Restricted Fund Balance: Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Building Fund in accordance with the Bond Project List for Measure E General Obligation Bonds.

Accounting Estimates: The presentation of 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. Actual results could differ from those estimates.

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. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

(Continued)

VISALIA UNIFIED SCHOOL DISTRICT
 MEASURE E GENERAL OBLIGATION BONDS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2016 consisted of \$8,296,976 held in the County Treasury investment pool.

Credit Risk: In accordance with Education Code Section 41001, the Building Fund 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 prorated 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 Treasury, which is recorded on the amortized cost basis.

Because the Building Fund's deposits are maintained in a recognized pooled investment fund under the care of a third party and the Building Fund's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable State laws, the Tulare County Treasurer may invest in derivative securities. However, at June 30, 2016, the Tulare County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
County Pooled Investment Fund	None	None	None

Disclosures Relating to Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Concentration of Credit Risk: The District's investment policy places limits on the amount it may invest in any one issuer. At June 30, 2016, the District had no concentration of credit risk.

NOTE 3 – FUND BALANCE CLASSIFICATION

Governmental Accounting Standard Board Classification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type* (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 are nonspendable, restricted, committed, assigned and unassigned. The fund balance of the Measure E General Obligation Bonds is restricted, as described below.

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 legislations.

(Continued)

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4– PURPOSE OF BOND ISSUANCE

Bond Authorization: The Visalia Unified School District, Tulare County, California Election of 2012 General Obligation Bonds, Measure E were authorized at an election of the registered voters of the Visalia Unified School District held on November 6, 2012 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$60,100,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the constructing, modernizing, renovating, installing, updating, replacing and repairing school facilities, infrastructure and grounds of certain District property and facilities. The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes.

Purpose of Bonds: The proceeds of the Bond may be used:

"To improve the quality of education and relieve overcrowding, shall the Visalia Unified School District repair/replace roofs, make schools accessible for disabled students, provide up-to-date science labs, repair/update/equip worn-out schools, construct/equip new school facilities, and qualify for available State matching funds, by issuing \$60,100,000 of bonds at legal interest rates and extending, without raising, the current tax; with citizen's oversight, independent audits, all funds spent locally, and no money for employee or administrators' salaries?"

Proceeds from the sale of bonds authorized by this proposition shall be used only for the construction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses

Bond Project List: The Bond Project List, which is an integral part of the proposition, lists the specific projects the District proposes to finance with proceeds of the bonds. Listed repairs, rehabilitation projects and upgrades will be completed as needed at individual campuses. Each project is assumed to include its share of costs of the election and bond issuance, architectural, engineering and similar planning costs, construction management and customary contingency for unforeseen design and construction costs. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. In addition, certain construction funds expected from non-bond sources, including State grant funds for eligible projects, have not yet been secured. Therefore, the Board of Education cannot guarantee that the bonds will provide sufficient funds to allow completion of all listed projects.

NOTE 5 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District. The Board of Supervisors of Tulare County are obligated to levy *ad valorem* taxes for the payment, without limitation as to amount, upon all property within the county subject to taxation by the District for the payment of principal of and interest on the Bonds when due. The bonds are included in the audited financial statements of the District. As of June 30, 2016, the District has fully issued the Measure E bonding authority.

In April 2013, the District issued Election of 2012 General Obligation Bonds, Series 2013 in the amount of \$33,999,971, consisting of \$22,725,000 of Current Interest Bonds, and \$11,274,971 in Capital Appreciation Bonds. The bonds mature through August 1, 2043, with interest yields ranging from 4.0 to 5.35 percent.

(Continued)

VISALIA UNIFIED SCHOOL DISTRICT
 MEASURE E GENERAL OBLIGATION BONDS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5 – GENERAL OBLIGATION BOND ISSUANCES (Continued)

In June 2015, the District issued Election of 2012 General Obligation Bonds, Series 2015 in the amount of \$26,100,000. The bonds mature through August 1, 2040, with interest yields ranging from 4.0 to 5.0 percent.

The general long-term liabilities maturity schedules for the 2012 General Obligation Bonds Series 2013 and Series 2015 are as follows:

Series 2013

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 105,000	\$ 967,513	\$ 1,072,513
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
2022-2026	5,983,088	4,678,462	10,661,550
2027-2031	4,126,604	7,313,396	11,440,000
2032-2036	3,703,809	9,721,191	13,425,000
2037-2041	7,126,470	7,767,330	14,893,800
2042-2045	<u>8,380,000</u>	<u>805,500</u>	<u>9,185,500</u>
	<u>\$ 31,519,971</u>	<u>\$ 34,986,692</u>	<u>\$ 66,506,663</u>

Series 2015

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 360,000	\$ 1,155,300	\$ 1,515,300
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
2022-2026	3,280,000	4,458,750	7,738,750
2027-2031	4,870,000	3,446,250	8,316,250
2032-2036	6,110,000	2,222,200	8,332,200
2037-2041	7,960,000	842,600	8,802,600
2042	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 26,100,000</u>	<u>\$ 16,295,550</u>	<u>\$ 42,395,550</u>

NOTE 6 – CONSTRUCTION COMMITMENTS

As of June 30, 2016, the District has approximately \$5 million in outstanding commitments on Measure E Bond construction contracts.

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

To the Citizens' Bond
Oversight Committee and the Board of Education
Visalia Unified School District

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 Visalia Unified School District (the "District") Measure E General Obligation Bonds activity included in the Building Fund of the District (the "Building Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated January 12, 2017.

Internal Control Over Financial Reporting

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

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 the District's Building Fund financial statements are free of material misstatement, we performed tests of the Building Fund's 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 for the Building Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance for the Building Fund. Accordingly, this communication is not suitable for any other purpose.



Crowe Horwath LLP

Sacramento, California
January 12, 2017

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

No matters were reported.

VISALIA UNIFIED SCHOOL DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

No matters were reported.