

ADELANTO SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2015

ADELANTO SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2015
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities.....	12
Governmental Funds Financial Statements:	
Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities.....	16
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Net Position.....	17
Notes to Financial Statements	18

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	46
Schedule of Funding Progress	47
Schedule of Proportionate Share of the Net Pension Liability	48
Schedule of Contributions	49
Notes to the Required Supplementary Information	50

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	51
Schedule of Average Daily Attendance	52
Schedule of Instructional Time	53
Schedule of Financial Trends and Analysis.....	54
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	55
Schedule of Expenditures of Federal Awards	56
Schedule of Charter Schools	57
Note to the Supplementary Information.....	58

ADELANTO SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2015
Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

	<u>Page</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Independent Auditors' Report on State Compliance	61
Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	63

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:	
Summary of Auditors' Results	65
Current Year Audit Findings and Questioned Costs	66
Summary Schedule of Prior Audit Findings	72
Management Comment Letter	76

Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adelanto School District
Adelanto, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 Adelanto School District, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for pensions during fiscal year 2014-15 due to the adoption of Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27" and No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68". The adoption of these standards required retrospective application resulting in a \$48,973,984 reduction of previously reported net position at July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

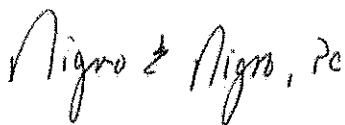
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 46, schedule of funding progress on page 47, schedule of proportionate share of the net pension liability on page 48, and schedule of contributions on page 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information on pages 52 to 55, and the schedule of expenditures of federal awards on page 56, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 51 and 57 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 14, 2015

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

This discussion and analysis of Adelanto School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined from last year, as the net position decreased by 4.7% to \$125.1 million
- Total governmental revenues were \$80.9 million, \$6.2 million less than expenses.
- The total cost of basic programs was \$87.1 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$71.8 million.
- Average daily attendance (ADA) in grades K-8 increased by 213, or 2.8%.

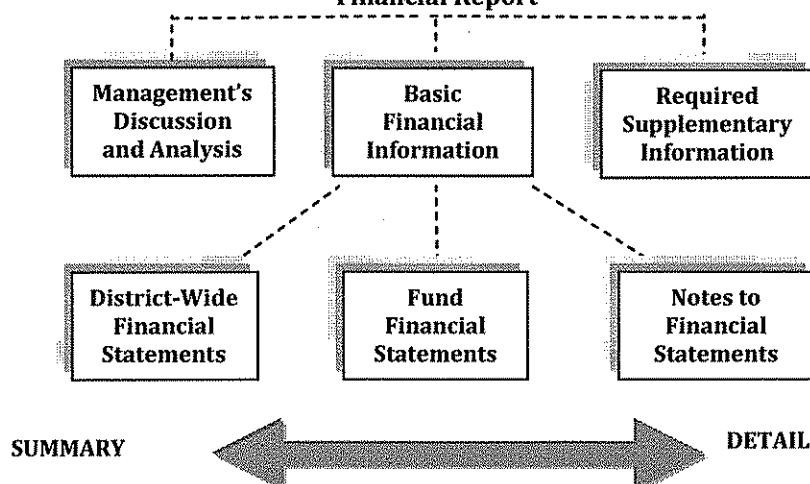
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management 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:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
 - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Adelanto School District's Annual Financial Report



ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. 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.

The two 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 and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and 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 nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not 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 debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – 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 on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

ADELANTO SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2015, than it was the year before – decreasing 4.7% to \$125.1 million (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014*	
Current assets	\$ 30.9	\$ 36.2	\$ (5.3)
Capital assets	191.5	189.4	2.1
Total assets	222.4	225.6	(3.2)
Total deferred outflows	4.8	3.0	1.8
Current liabilities	8.0	6.1	1.9
Long-term liabilities	82.7	91.2	(8.5)
Total liabilities	90.7	97.3	(6.6)
Total deferred inflows	11.4	-	11.4
Net position			
Net investment in capital assets	172.8	171.0	1.8
Restricted	20.7	26.8	(6.1)
Unrestricted	(68.4)	(66.5)	(1.9)
Total net position	\$ 125.1	\$ 131.3	\$ (6.2)

* As restated

Changes in net position, governmental activities. The District's total revenues increased 20.2% to \$80.9 million (See Table A-2). The increase is due primarily to increased state aid from LCFF.

The total cost of all programs and services increased 16.8% to \$87.1 million. The District's expenses are predominantly related to educating and caring for students, 73%. The purely administrative activities of the District accounted for just 6.5% of total costs. A significant contributor to the increase in costs was due to additional spending on instruction and instruction related services.

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
Total Revenues	\$ 80.9	\$ 67.3	\$ 13.6
Total Expenses	87.1	74.6	12.5
Increase (decrease) in net position	\$ (6.2)	\$ (7.3)	\$ 1.1

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$23.2 million, which is below last year's ending fund balance of \$30.3 million. The primary cause of the decreased fund balance is due to negotiated salary increases.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$4.3 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$3.0 million due to changes in salary estimates.
- Other non-capital expenditures – increased \$2.4 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$4.2 million, the actual results for the year show that revenues fell short of expenditures by roughly \$3.9 million. Actual revenues were \$1.3 million more than anticipated, and expenditures were \$0.9 million more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014-15 the District had invested \$8.0 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$5.8 million.

Table A-3: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014*	
Land	\$ 17.8	\$ 17.8	\$ -
Improvement of sites	2.0	2.3	(0.3)
Buildings	166.3	165.9	0.4
Equipment	5.4	3.4	2.0
Total	<u>\$ 191.5</u>	<u>\$ 189.4</u>	<u>\$ 2.1</u>

* As restated

Long-Term Debt

At year-end the District had \$82.7 million in general obligation bonds, net pension liability, certificates of participation, capital leases, and employment benefits – a decrease of 9.3% from last year – as shown in Table A-4. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014*	
General obligation bonds	\$ 25.2	\$ 25.7	\$ (0.5)
Certificates of participation	8.8	9.0	(0.2)
Early retirement incentives	0.7	0.6	0.1
Compensated absences	0.4	0.5	(0.1)
Capital leases	1.3	-	1.3
Net pension liability	42.1	52.0	(9.9)
Other postemployment benefits	4.2	3.4	0.8
Total	<u>\$ 82.7</u>	<u>\$ 91.2</u>	<u>\$ (8.5)</u>

* As restated

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE

Overview

On June 16, 2015, the Governor, the Senate President pro Tempore, and the Speaker of the Assembly announced a budget agreement. The Legislature passed the budget bill and related legislation on Friday, June 19. The budget agreement relies on the administration's May 2015 estimates of (1) General Fund revenues, (2) the Proposition 98 minimum guarantee for schools and community colleges, and (3) budget reserve and debt payment requirements under Proposition 2. School and community college funding is the centerpiece of the agreement, as administration estimates of the Proposition 98 minimum guarantee have increased substantially over June 2014 levels. With savings resulting from (1) rejection of various administration proposals, (2) an error in the administration's Medi-Cal estimates, (3) legislative changes made to the Middle-Class Scholarship Program, and (4) other legislative actions, the agreement makes modest augmentations outside of Proposition 98 above May Revision levels.

2015-16 to End With \$4.6 Billion in Estimated Total Reserves

The budget agreement assumes \$115 billion in revenues, a 3.3 percent increase over 2014-15. (This total is net of the \$1.9 billion deposit in the Proposition 2 Budget Stabilization Account [BSA].) The state's "big three" General Fund taxes—the personal income tax, sales and use tax, and corporation tax—are estimated to increase at a slightly higher rate (4 percent). General Fund revenue growth was much higher in 2014-15, increasing at a very healthy 7.7 percent rate. General Fund spending is largely flat across 2014-15 and 2015-16, increasing at only 0.8 percent. Growth in ongoing programmatic spending, however, is masked by various one-time actions, including one-time spending in 2014-15 on debt payments and mandate backlog claims, and the end of the "triple flip" mechanism used to finance the state's prior deficit financing bonds. The budget ends 2015-16 with \$4.6 billion in estimated total reserves, including \$1.1 billion in the Special Fund for Economic Uncertainties—the state's traditional budget reserve—and \$3.5 billion in the BSA.

Proposition 98

Substantial Upward Revisions to Estimates of Proposition 98 Minimum Guarantee

State budgeting for preschool, elementary and secondary schools, and the California Community Colleges (CCC) is based primarily on Proposition 98, approved by voters in 1988. Proposition 98 established a minimum funding requirement commonly called the minimum guarantee. The estimate of the 2013-14 and 2014-15 minimum guarantees have increased \$612 million and \$5.4 billion, respectively from the June 2014 estimates. The estimate of the 2015-16 minimum guarantee is \$7.6 billion (12 percent) higher than the 2014-15 Budget Act level. These increases in the guarantee are due primarily to state revenues being higher than assumed in last year's budget package. The budget package funds at these latest estimates of the minimum guarantees.

Large Upward 2014-15 Adjustments Result in Relatively Modest Year-Over-Year Growth

Growth from the revised 2014-15 level to 2015-16 is \$2.1 billion (3 percent). This relatively modest growth is due to the large upward revision to 2014-15 noted above. In 2015-16, total Proposition 98 funding is \$68.4 billion. Of this amount, \$49.4 billion is General Fund and \$19 billion is local property tax revenue. The notable increase in local property tax revenue from 2014-15 to 2015-16 (\$2.3 billion, 14 percent) is due in large part to the end of the triple flip and the shift of associated local property tax revenue back from cities, counties, and special districts to school and community college districts. Growth in local property tax revenue is slightly greater than growth in the Proposition 98 minimum guarantee, resulting in a slight reduction in Proposition 98 General Fund from 2014-15 to 2015-16.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Per-Student Funding Increases Significantly

Under the budget package, K-12 per-student funding increases from the 2014-15 Budget Act level of \$8,931 to \$9,942 in 2015-16—an increase of \$1,011 (11 percent).

Budget Package Contains Many Spending Changes

The budget accounts for higher Local Control Funding Formula (LCFF) costs and uses the remaining funding increase for paying down the K-14 mandate backlog. In addition to these changes, the budget package includes a \$256 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2006-07 and 2009-10 and \$207 million in unspent prior-year Proposition 98 funds that have been repurposed.

Package Notably Reduces Outstanding K-14 Obligations

The budget package includes the following K-14 actions, all of which reduce the state's outstanding K-14 obligations.

- ***Pays Down Mandate Backlog.*** The budget package includes \$3.8 billion to pay down the K-14 mandate backlog (\$3.2 billion is for the K-12 backlog and \$632 million for the CCC backlog). After accounting for these payments, the LAO estimates the outstanding K-14 mandate backlog to be \$1.5 billion (\$1.2 billion for schools and about \$300 million for community colleges).
- ***Retires All K-14 Payment Deferrals.*** As required by trailer legislation enacted last year, the budget package provides \$992 million to eliminate all remaining K-14 payment deferrals. The budget year will be the first fiscal year since 2000-01 that the state is set to make all K-14 payments on time.
- ***Pays Off Emergency Repair Program (ERP) Obligation.*** The budget includes \$273 million for the final ERP payment. Statute requires the state to provide a total of \$800 million to school districts for emergency facility repairs, and the state has provided \$527 million to date. (Of the \$273 million, \$145 million comes from a settle-up payment and \$128 million comes from unspent prior-year Proposition 98 funds.)

K-12 Education

Large Increase for Local Control Funding Formula (LCFF)

The largest single augmentation in the state budget is \$6.0 billion for implementing the LCFF for school districts and charter schools—bringing total LCFF funding to \$52 billion. This reflects a 13 percent year-over-year increase in LCFF funding. The administration estimates this funding will close 52 percent of the remaining gap to LCFF target rates. The budget funds 90 percent of the estimated statewide full LCFF implementation cost. School districts and charter schools may use LCFF monies for any educational purpose, including implementation of their Local Control and Accountability Plans.

New Secondary School Career Technical Education (CTE) Competitive Grant Program

The budget package includes \$900 million in one-time funding for a three-year competitive grant program to promote high-quality CTE. Of this amount, \$400 million is provided in 2015-16, \$300 million in 2016-17, and \$200 million in 2017-18. School districts, county offices of education (COEs), charter schools, and Regional Occupational Centers and Programs operated by joint powers agencies (JPAs) may apply for grants, individually or in consortia. The program provides separate pools of funding for large, medium-sized, and small applicants, based on applicants' average daily attendance (ADA) in grades 7-12.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education (continued)

New Secondary School Career Technical Education (CTE) Competitive Grant Program (continued)

Specifically, 88 percent of the funding is reserved for applicants with ADA greater than 550, 8 percent is reserved for applicants with ADA between 140 and 550, and 4 percent is reserved for applicants with less than 140 ADA. The Superintendent of Public Instruction (SPI), in collaboration with the executive director of the State Board of Education (SBE), will determine the number of grants to be awarded and specific grant amounts.

Package of Special Education Actions

The budget includes \$67 million for a package of special education-related activities. Of the \$67 million, \$52 million is ongoing and \$15 million is one time. The largest ongoing augmentation in this package is for expanding services for infants, toddlers, and preschoolers with disabilities as well as requiring preschool staff training and parent education relating to identifying and meeting preschoolers' special needs. The largest one-time augmentation is for one or two COEs to develop statewide resources and training opportunities for addressing students' diverse instructional and behavioral needs.

Second Round of Internet Infrastructure Grants

The budget includes \$50 million in one-time funding for the second round of Broadband Internet Infrastructure Grants. The K-12 High Speed Network is to award grants to schools that cannot administer online tests or can only administer the tests by shutting down other essential online activities such as email. Grants may be used to purchase Internet infrastructure. The Department of Finance (DOF) must approve projects resulting in costs exceeding \$1,000 per test-taking pupil.

All of these factors were considered in preparing the Adelanto School District budget for the 2015-16 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to:

Business Services
Adelanto School District
11824 Air Expressway
Adelanto, CA 92301
(760) 246-8691

ADELANTO SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

	Total Governmental Activities
ASSETS	
Cash	\$ 26,411,531
Accounts receivable	3,647,379
Inventories	208,513
Prepaid expenses	678,465
Non-depreciable assets	17,806,485
Depreciable assets	227,111,839
Less accumulated depreciation	<u>(53,437,456)</u>
Total assets	<u>222,426,756</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	3,987,358
Adjustment due to differences in proportionate share	<u>852,873</u>
Total deferred outflows of resources	<u>4,840,231</u>
 LIABILITIES	
Accounts payable	8,054,011
Unearned revenue	18,989
Long-term debt:	
Portion due or payable within one year	3,079,868
Portion due or payable after one year	<u>79,630,078</u>
Total liabilities	<u>90,782,946</u>
 DEFERRED INFLOWS OF RESOURCES	
Net differences between projected and actual earnings on plan investments	<u>11,433,904</u>
 NET POSITION	
Net investment in capital assets	172,785,578
Restricted for:	
Capital projects	8,990,089
Debt service	4,243,608
Categorical programs	7,524,736
Unrestricted	<u>(68,493,874)</u>
Total net position	<u>\$ 125,050,137</u>

ADELANTO SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:					
Instructional services:					
Instruction	\$ 43,844,171	\$ 639	\$ 6,867,148	\$ 50,154	\$ (36,926,230)
Instruction-related services:					
Supervision of instruction	1,427,111	-	322,384	-	(1,104,727)
Instructional library, media and technology	627,551	-	32,412	-	(595,139)
School site administration	4,884,009	-	140,029	-	(4,743,980)
Pupil support services:					
Home-to-school transportation	3,009,596	-	-	-	(3,009,596)
Food services	5,456,854	98,917	5,664,317	-	306,380
All other pupil services	4,310,722	-	510,436	-	(3,800,286)
General administration services:					
Data processing services	783,282	-	-	-	(783,282)
Other general administration	4,846,550	5,381	493,822	-	(4,347,347)
Plant services	8,626,213	177,046	207,288	-	(8,241,879)
Ancillary services	3,019	-	-	-	(3,019)
Community services	84,792	2,384	56,183	-	(26,225)
Interest on long-term debt	2,951,319	-	-	-	(2,951,319)
Other outgo	406,762	708,565	14,788	-	316,591
Depreciation (unallocated)	5,848,289	-	-	-	(5,848,289)
Total Governmental Activities	\$ 87,110,240	\$ 992,932	\$ 14,308,807	\$ 50,154	(71,758,347)
General Revenues:					
Property taxes					6,803,717
Federal and state aid not restricted to specific purpose					57,324,416
Interest and investment earnings					22,764
Interagency revenues					210,997
Miscellaneous					1,233,081
Total general revenues					65,594,975
Change in net position					(6,163,372)
Net position, July 1, 2014, as originally stated					183,568,142
Adjustments for restatement (Note 13)					(52,354,633)
Net position, July 1, 2014, as restated					131,213,509
Net position, June 30, 2015					\$ 125,050,137

ADELANTO SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2015

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 9,623,396	\$ 9,344,294	\$ 3,444,745	\$ 3,999,096	\$ 26,411,531
Accounts receivable	2,642,371	134,119	-	870,889	3,647,379
Due from other funds	268,309	-	-	-	268,309
Inventories	73,221	-	-	135,292	208,513
Prepaid expenditures	678,465	-	-	-	678,465
Total Assets	<u>\$ 13,285,762</u>	<u>\$ 9,478,413</u>	<u>\$ 3,444,745</u>	<u>\$ 5,005,277</u>	<u>\$ 31,214,197</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 6,218,239	\$ 1,358,505	\$ -	\$ 151,699	\$ 7,728,443
Unearned revenue	-	-	-	18,989	18,989
Due to other funds	-	-	-	268,309	268,309
Total Liabilities	<u>6,218,239</u>	<u>1,358,505</u>	<u>-</u>	<u>438,997</u>	<u>\$ 8,015,741</u>
Fund Balances					
Nonspendable	811,686	-	-	136,212	947,898
Restricted	5,061,640	8,119,908	3,444,745	4,349,759	20,976,052
Committed	-	-	-	80,309	80,309
Assigned	1,955	-	-	-	1,955
Unassigned	1,192,242	-	-	-	1,192,242
Total Fund Balances	<u>7,067,523</u>	<u>8,119,908</u>	<u>3,444,745</u>	<u>4,566,280</u>	<u>23,198,456</u>
Total Liabilities and Fund Balances	<u>\$ 13,285,762</u>	<u>\$ 9,478,413</u>	<u>\$ 3,444,745</u>	<u>\$ 5,005,277</u>	<u>\$ 31,214,197</u>

ADELANTO SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2015

Total fund balances - governmental funds \$ 23,198,456

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 \$244,918,324 and the accumulated depreciation is (\$53,437,456). 191,480,868

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (325,568)

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	25,204,132	
Certificates of participation payable	8,842,373	
Compensated absences payable	460,981	
Capital leases payable	1,304,319	
Net pension liability	42,051,586	
Early retirement incentive	662,127	
Other postemployment benefits	<u>4,184,428</u>	(82,709,946)

In governmental 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. Deferred outflows and inflows of resources relating to pensions consist of:

Total deferred outflows	4,840,231	
Total deferred inflows	<u>(11,433,904)</u>	<u>(6,593,673)</u>

Total net position - governmental activities \$ 125,050,137

ADELANTO SCHOOL DISTRICT**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**
For the Fiscal Year Ended June 30, 2015

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 58,290,894	\$ -	\$ -	\$ 94,141	\$ 58,385,035
Federal sources	3,738,741	-	-	5,512,058	9,250,799
Other state sources	5,011,709	-	30,166	440,564	5,482,439
Other local sources	3,243,990	247,922	3,132,272	1,013,896	7,638,080
Total Revenues	70,285,334	247,922	3,162,438	7,060,659	80,756,353
EXPENDITURES					
Current:					
Instruction	43,545,031	-	-	-	43,545,031
Instruction-related services:					
Supervision of instruction	1,440,951	-	-	-	1,440,951
Instructional library, media and technology	629,243	-	-	-	629,243
School site administration	4,855,606	-	-	-	4,855,606
Pupil support services:					
Home-to-school transportation	4,679,036	-	-	-	4,679,036
Food services	115	-	-	5,492,847	5,492,962
All other pupil services	4,313,686	-	-	-	4,313,686
Community services	85,783	-	-	-	85,783
General administration services:					
Data processing services	791,701	-	-	-	791,701
Other general administration	4,720,541	-	-	-	4,720,541
Plant services	8,458,248	-	-	66,879	8,525,127
Ancillary services	3,022	-	-	-	3,022
Transfers of indirect costs	(279,965)	-	-	279,965	-
Intergovernmental transfers	510,213	-	-	-	510,213
Capital outlay	155,615	6,105,174	-	31,300	6,292,089
Debt service:					
Principal	247,439	-	851,224	135,000	1,233,663
Interest	-	-	1,943,822	393,384	2,337,206
Total Expenditures	74,156,265	6,105,174	2,795,046	6,399,375	89,455,860
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,870,931)	(5,857,252)	367,392	661,284	(8,699,507)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	764,894	764,894
Interfund transfers out	(38,473)	-	-	(726,421)	(764,894)
Proceeds from capital leases	1,551,758	-	-	-	1,551,758
Total Other Financing Sources and Uses	1,513,285	-	-	38,473	1,551,758
Net Change in Fund Balances	(2,357,646)	(5,857,252)	367,392	699,757	(7,147,749)
Fund Balances, July 1, 2014, as originally stated	9,425,169	13,977,160	3,077,353	4,121,455	30,601,137
Adjustment for restatement	-	-	-	(254,932)	(254,932)
Fund Balances, July 1, 2014, as restated	9,425,169	13,977,160	3,077,353	3,866,523	30,346,205
Fund Balances, June 30, 2015	\$ 7,067,523	\$ 8,119,908	\$ 3,444,745	\$ 4,566,280	\$ 23,198,456

ADELANTO SCHOOL DISTRICT***Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2015***

Total net change in fund balances - governmental funds **\$ (7,147,749)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	7,953,496	
Depreciation expense	<u>(5,848,289)</u>	2,105,207

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,233,663

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was: (359,837)

In the governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from capital leases during the year were: (1,551,758)

In the governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: (10,587)

In governmental funds, postemployment benefits costs are recognized as expenditures in the period that they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (746,066)

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits, such as retirement incentives financed over time, and structured legal settlements. This year, early retirement incentives granted exceeded the amounts paid by: (34,341)

In governmental funds, interest on long-term debt 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. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period, was: 4,502

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 the accrual-basis pension costs and actual employer contributions was: 328,725

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 14,869

Change in net position of governmental activities **\$ (6,163,372)**

ADELANTO SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2015

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	\$ 13,650	\$ 4,546,277
Liabilities		
Due to bondholders	\$ -	\$ 4,546,277
Due to student groups	13,650	-
Total Liabilities	\$ 13,650	\$ 4,546,277

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adelanto 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:

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Adelanto School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Adelanto School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

The following is a summary of the Community Facilities Districts (CFDs) operated by the District:

Date of Formation	Name	Area
April 19, 2005	CFD No. 1	West Creek
September 6, 2005	CFD No. 2	New West
August 2, 2006	CFD No. 3	Griffin Communities
December 4, 2006	CFD No. 4	American Heritage

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District maintains a Special Reserve Fund for Other Than Capital Outlay Projects and a Self-Insurance Fund. The Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. The Self-insurance Fund is not operating as a true Self-Insurance Fund and is not composed of restricted or committed resources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

County School Facilities Fund: This fund is used primarily to account separately for state apportionments as provided by Ed. Code sections 17009.5 & 17070.10-17076.10.

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds:

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Deferred Maintenance Fund: This fund is used to account for resources committed to major repair or replacement of District property.

Capital Projects Funds:

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Capital Projects Funds for Blended Component Units: This fund is used to account for the activity of the certificates of participation and of the Community Facilities Districts.

Debt Service Fund:

Debt Service Fund for Blended Component Units: This fund is used to account for the debt service activity of the certificates of participation.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

ASB Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

Debt Service Fund for Special Tax Bonds: This fund is used to account for the debt service activity of the Community Facilities Districts (CFDs).

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. Budgetary Data

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data (continued)

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

D. 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.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

4. Unearned Revenue (continued)

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is to recognize contributions made to the pension plan after the measurement date of the net pension liability. The second is to recognize differences in the proportionate share of the net pension liability.

In addition to liabilities, the statement of net position will sometimes report 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 and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that is reported as deferred inflows of resources. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

9. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

9. Net Position (continued)

- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy

Pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund. Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 8% of the District's general fund annual operating expenditures. If a fund balance drops below 8%, a plan will be developed to replenish the fund balance to the established minimum level within two years.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the governing board has provided otherwise in its commitment or assignment actions.

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 reported period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2014-15 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 (Issued 06/12)*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68 (Issued 11/13)*

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net position liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

3. Cumulative Effect of Change in Accounting Principle

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards was to decrease the net position at July 1, 2013, by \$48,973,984, which is the amount of net pension liability, net of the deferred outflows of resources related to pensions at July 1, 2014.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 2 – CASH

Cash and investments at June 30, 2015, are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 25,155,930	\$ -
Deposits:		
Cash on hand and in banks	92,626	13,650
Cash in revolving fund	60,920	-
Cash with fiscal agent	1,102,055	4,546,277
Total Deposits	1,255,601	4,559,927
Total Cash	\$ 26,411,531	\$ 4,559,927

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool 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 County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2015, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015, consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government:				
Categorical aid programs	\$ 1,229,235	\$ -	\$ 790,224	\$ 2,019,459
State Government:				
Lottery	684,281	-	-	684,281
Categorical aid programs	31,460	-	65,748	97,208
Local:				
Interest	5,743	9,761	2,462	17,966
Charter management fees	250,980	-	-	250,980
Special Education	255,092	-	-	255,092
Miscellaneous	185,580	124,358	12,455	322,393
Total	<u>\$ 2,642,371</u>	<u>\$ 134,119</u>	<u>\$ 870,889</u>	<u>\$ 3,647,379</u>

NOTE 4 – INTERFUND ACTIVITIES**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2015, consisted of the following:

Cafeteria Fund due to General Fund for payroll expenditures paid on behalf of fund	<u>\$ 268,309</u>
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B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2015, consisted of the following:

General Fund transfer to Capital Facilities Fund for expenditure reimbursements	\$ 38,473
Capital Facilities Fund transfer to Debt Service Fund for Blended Component Units for COP payment	<u>726,421</u>
	<u>\$ 764,894</u>

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 5 – FUND BALANCES

At June 30, 2015, fund balances of the District's governmental funds were classified as follows:

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 60,000	\$ -	\$ -	\$ 920	\$ 60,920
Stores inventories	73,221	-	-	135,292	208,513
Prepaid expenditures	678,465	-	-	-	678,465
Total Nonspendable	811,686	-	-	136,212	947,898
Restricted:					
Categorical programs	5,061,640	-	-	-	5,061,640
Child nutrition program	-	-	-	2,326,884	2,326,884
Capital projects	-	8,119,908	-	1,224,012	9,343,920
Debt service	-	-	3,444,745	798,863	4,243,608
Total Restricted	5,061,640	8,119,908	3,444,745	4,349,759	20,976,052
Committed:					
Deferred maintenance program	-	-	-	80,309	80,309
Total Committed	-	-	-	80,309	80,309
Assigned:					
Other assignments	1,955	-	-	-	1,955
Total Assigned	1,955	-	-	-	1,955
Unassigned:					
Reserve for economic uncertainties	1,192,242	-	-	-	1,192,242
Total Unassigned	1,192,242	-	-	-	1,192,242
Total	\$ 7,067,523	\$ 8,119,908	\$ 3,444,745	\$ 4,566,280	\$ 23,198,456

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

	Original Balance, July 1, 2014	Adjustment for Restatement	Restated Balance, July 1, 2014	Additions	Retirements	Balance, June 30, 2015
Capital assets not being depreciated:						
Land	\$ 17,245,742	560,743	17,806,485	\$ -	\$ -	\$ 17,806,485
Construction in progress	68,710,540	(68,710,540)	-	-	-	-
Total capital assets not being depreciated	85,956,282	(68,149,797)	17,806,485	-	-	17,806,485
Capital assets being depreciated:						
Improvement of sites	7,371,432	(1,834,583)	5,536,849	54,470	-	5,591,319
Buildings	133,828,160	67,933,394	201,761,554	5,090,339	-	206,851,893
Equipment	12,549,694	(689,754)	11,859,940	2,808,687	-	14,668,627
Total capital assets being depreciated	153,749,286	65,409,057	219,158,343	7,953,496	-	227,111,839
Accumulated depreciation for:						
Improvement of sites	(4,218,421)	957,182	(3,261,239)	(326,870)	-	(3,588,109)
Buildings	(35,304,073)	(566,260)	(35,870,333)	(4,698,846)	-	(40,569,179)
Equipment	(7,681,696)	(775,899)	(8,457,595)	(822,573)	-	(9,280,168)
Total accumulated depreciation	(47,204,190)	(384,977)	(47,589,167)	(5,848,289)	-	(53,437,456)
Total capital assets being depreciated, net	106,545,096	65,024,080	171,569,176	2,105,207	-	173,674,383
Governmental activity capital assets, net	\$ 192,501,378	\$ (3,125,717)	\$ 189,375,661	\$ 2,105,207	\$ -	\$ 191,480,868

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	Balance, July 1, 2014*	Additions	Deductions	Balance, June 30, 2015	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 9,753,653	\$ -	\$ 851,224	\$ 8,902,429	\$ 875,269
Accreted interest component	15,941,866	1,819,844	1,460,007	16,301,703	1,639,654
Total - G.O. Bonds	25,695,519	1,819,844	2,311,231	25,204,132	2,514,923
Certificates of Participation:					
Principal repayments	9,205,000	-	135,000	9,070,000	150,000
Unamortized issuance discount	(238,214)	-	(10,587)	(227,627)	(10,587)
Total - COPs	8,966,786	-	124,413	8,842,373	139,413
Compensated Absences	475,850	-	14,869	460,981	-
Capital Lease	-	1,551,758	247,439	1,304,319	197,484
Early Retirement Incentives	627,786	436,945	402,604	662,127	228,048
Other Postemployment Benefits	3,438,362	746,066	-	4,184,428	-
Net Pension Liability	52,011,894	-	9,960,308	42,051,586	-
Totals	\$ 91,216,197	\$ 4,554,613	\$ 13,060,864	\$ 82,709,946	\$ 3,079,868

* Beginning balance has been restated to reflect the retroactive implementation of GASB Statement No. 68 for the net pension liability.

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments are made by the Debt Service Fund for Blended Component Units. Capital lease payments are made by the General Fund. Accumulated vacation, early retirement incentive payments, and employment benefits will be paid for by the fund for which the employee worked.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds**

In 1993, the District received authorization to issue \$10 million of general obligation bonds at an election held on June 8, 1993. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of two new elementary schools.

In 1996, the District received authorization to issue \$12 million of general obligation bonds at an election held on June 4, 1996. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction of a new elementary school and a new middle school.

Below is a summary of bonds issued by the District:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 1,253,607	\$ -	\$ 221,821	\$ 1,031,786
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	2,022,661	-	367,665	1,654,996
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	879,432	-	134,363	745,069
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,597,953	-	127,375	5,470,578
				<u>\$ 21,995,645</u>	<u>\$ 9,753,653</u>	<u>\$ -</u>	<u>\$ 851,224</u>	<u>\$ 8,902,429</u>
Accreted Interest								
	1993			\$ 2,512,053	\$ 225,664	\$ -	\$ -	\$ 2,737,717
	1994			3,458,580	663,544	1,026,745		3,095,379
	1996			1,533,849	134,266	240,638		1,427,477
	1997			8,437,384	796,370	192,624		9,041,130
					<u>\$ 15,941,866</u>	<u>\$ 1,819,844</u>	<u>\$ 1,460,007</u>	<u>\$ 16,301,703</u>

The amounts required to amortize general obligation bonds payable at June 30, 2015, were:

Fiscal Year	Principal	Interest	Total
2015-16	\$ 875,269	\$ 2,191,879	\$ 3,067,148
2016-17	902,132	2,473,495	3,375,627
2017-18	931,941	2,793,599	3,725,540
2018-19	940,166	3,089,834	4,030,000
2019-20	1,265,527	3,089,473	4,355,000
2020-23	<u>3,987,394</u>	<u>11,352,606</u>	<u>15,340,000</u>
Total	<u>\$ 8,902,429</u>	<u>\$ 24,990,886</u>	<u>\$ 33,893,315</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**B. Certificates of Participation**

On January 17, 2007, the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the Public Property Financing Corporation of California. The proceeds of the certificates were used primarily to finance the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. The certificates were issued as \$1,870,000 Serial Certificates with stated interest rates of between 3.875% and 4.25% and maturing between September 1, 2011 and 2021, and Term Certificates of \$1,705,000, and \$5,920,000, having yields of 4.48% and 4.53%, and maturing September 1, 2026, and 2036, respectively. At June 30, 2015, the principal balance outstanding was \$9,070,000.

The annual amounts required to amortize the outstanding certificates are shown below.

Fiscal Year	Principal	Interest	Total
2015-16	\$ 150,000	\$ 387,777	\$ 537,777
2016-17	170,000	381,578	551,578
2017-18	185,000	374,584	559,584
2018-19	205,000	366,784	571,784
2019-20	225,000	358,184	583,184
2020-25	1,455,000	1,624,719	3,079,719
2025-30	2,135,000	1,240,934	3,375,934
2030-35	3,030,000	680,750	3,710,750
2035-37	1,515,000	67,266	1,582,266
Total	<u>\$ 9,070,000</u>	<u>\$ 5,482,576</u>	<u>\$ 14,552,576</u>

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2015, for these obligations are shown below.

Future Years	Amount
2015-16	\$ 228,048
2016-17	173,345
2017-18	173,345
2018-19	87,389
Total	<u>\$ 662,127</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**D. Capital Leases**

On August 4, 2014, the District entered into a six year capital lease agreement with Wells Fargo for busses valued at \$1,551,758. Total future payments at June 30, 2015, are as follows:

Fiscal Year	Principal	Interest	Total
2015-16	\$ 197,484	\$ 49,955	\$ 247,439
2016-17	205,047	42,392	247,439
2017-18	212,901	34,538	247,439
2018-19	221,054	26,385	247,439
2019-20	229,521	17,918	247,439
2020-21	238,312	9,127	247,439
Total	<u>\$ 1,304,319</u>	<u>\$ 180,315</u>	<u>\$ 1,484,634</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

E. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$18,480,000 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

The Adelanto School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 8 - JOINT VENTURES (continued)

Condensed audited financial information is as follows:

	SCSRM	SCSEBA
	June 30, 2014	June 30, 2014
Total Assets	\$ 53,473,271	\$ 27,897,375
Total Liabilities	15,751,663	10,825,465
Total Net Position	<u>\$ 37,721,608</u>	<u>\$ 17,071,910</u>
Revenues	\$ 32,043,251	\$ 142,888,550
Expenses	34,087,198	139,609,030
Operating Income (Loss)	(2,043,947)	3,279,520
Non-Operating Revenue (Expense)	(19,602)	25,358
Change in Net Position	<u>\$ (2,063,549)</u>	<u>\$ 3,304,878</u>

NOTE 9 - RISK MANAGEMENT**Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2015, the District participated in the SCSRM public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2014-15, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with High Desert and Inland Employee/Employer Trust to provide employee medical, vision, and life insurance benefits. The District provides dental benefits for management employees through SCSEBA.

NOTE 10 - COMMITMENTS AND CONTINGENCIES**A. State and Federal Allowances, Awards, and Grants**

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

At June 30, 2015, the District had no commitments with respect to unfinished capital projects.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2015.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of California Public Employees' Retirement System (CalPERS).

A. General Information about the Pension Plans

Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4 percent at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2 percent simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2 percent increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1 percent of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0 percent at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 11 – PENSION PLANS (continued)**A. General Information about the Pension Plans (continued)****Benefits Provided (continued)**

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

Contributions

Active CalSTRS plan members were required to contribute 8.15% of their salary in 2014-15. The required employer contribution rate for fiscal year 2014-15 was 8.88% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2014-15 was 11.771%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	\$ 4,091,850	\$ 1,319,587
Employee contributions paid by employer	\$ -	\$ -

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	\$ 30,971,610
CalPERS	11,079,976
Total Net Pension Liability	<u>\$ 42,051,586</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 11 – PENSION PLANS (continued)**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014, was as follows:

	CalSTRS*	CalPERS
Proportion - June 30, 2013	0.0530%	0.0916%
Proportion - June 30, 2014	0.0530%	0.0976%
Change - Increase (Decrease)	0.0000%	0.0060%

* The District's proportionate share percentage was not separately determined for June 30, 2013, so the June 30, 2014, percentage was used to calculate the beginning amounts.

For the year ended June 30, 2015, the District recognized pension expense of \$3,658,634. At June 30, 2015, 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
Pension contributions subsequent to measurement date	\$ 3,987,358	\$ -
Adjustment due to differences in proportions	852,873	-
Net differences between projected and actual earnings on plan investments	-	(11,433,904)
	<u>\$ 4,840,231</u>	<u>\$ (11,433,904)</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 11 – PENSION PLANS (continued)**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The total amount of \$3,987,358 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	
June 30,	Amount
2016	\$ (2,263,923)
2017	\$ (2,263,923)
2018	\$ (2,263,923)
2019	\$ -
2020	\$ -
Thereafter	\$ -

Actuarial Assumptions – The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.50%
Inflation	3.00%	2.75%
Wage Growth	3.75%	3.00%
Post-retirement Benefit Increase	2.00%	-
Investment Rate of Return	7.60%	7.50%

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 for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2013, valuation were based on the results of a January, 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – for CalSTRS

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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 11 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate – for CalSTRS (continued)

Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – for CalPERS

The discount rate used to measure the total pension liability was 7.50% for CalPERS. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 (Pension Consulting Alliance-PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board.

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 pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 for each fund.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015***NOTE 11 – PENSION PLANS (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)*****Discount Rate – for CalPERS (continued)***

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.

The table below reflects the 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. These rates of return are net of administrative expenses.

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	47%	4.5%	5.7%
Global Fixed Income	N/A	19%	N/A	2.4%
Inflation Sensitive	5%	6%	3.2%	3.4%
Private Equity	12%	12%	6.2%	7.0%
Real Estate	15%	11%	4.4%	5.1%
Infrastructure and Forestland	N/A	3%	N/A	5.1%
Fixed Income	20%	N/A	0.2%	N/A
Liquidity	1%	2%	0.0%	-1.1%
	100%	100%		

Sensitivity of the 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 for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.50%
Net Pension Liability	\$ 48,276,640	\$ 19,436,808
Current Discount Rate	7.60%	7.50%
Net Pension Liability	\$ 30,971,610	\$ 11,079,976
1% Increase	8.60%	8.50%
Net Pension Liability	\$ 16,542,360	\$ 4,097,001

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 11 – PENSION PLANS (continued)

C. Payable to the Pension Plans

At June 30, 2015, the District reported a payable of \$217,693 and \$11,083 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2015.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Adelanto School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	23
Active plan members*	524
Total	<u>547</u>

**As of December 1, 2013, actuarial valuation*

Following is a description of the current retiree benefit plan (some retirees may have retired under earlier, grandfathered plans):

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical and vision	Medical only	Medical only
Duration of benefits	To age 65	To age 65	To age 65
Required service	10 years	10 years	10 years
Minimum age	55	55	50
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	95% of the lowest supercomposite rate	100% of the lowest supercomposite rate	100% of the lowest supercomposite rate

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2014-15, the District contributed \$228,727.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)**Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 (ARC)	\$ 963,866
Interest on net OPEB obligation	163,322
Adjustment to ARC	<u>(152,395)</u>
Annual OPEB cost	974,793
Contributions made:	<u>(228,727)</u>
Increase in net OPEB obligation	746,066
Net OPEB obligation - July 1, 2014	<u>3,438,362</u>
Net OPEB obligation - June 30, 2015	<u><u>\$ 4,184,428</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014-15 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2013	\$ 883,555	32%	\$ 2,627,625
2014	\$ 972,216	17%	\$ 3,438,362
2015	\$ 974,793	23%	\$ 4,184,428

Funded Status and Funding Progress - OPEB Plans

As of December 1, 2013, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$4.1 million and the unfunded actuarial accrued liability (UAAL) was \$4.1 million.

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 designated 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	December 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	4.75%
Inflation	3%
Healthcare cost trend rate	4%

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT

The beginning net position on the statement of activities and the beginning fund balance of the Cafeteria Fund on the statement of revenues, expenditures, and changes in fund balances were restated for the following reasons:

	Statement of Activities	Cafeteria Fund
Net Position/Fund Balance, July 1, 2014, as originally stated	\$ 183,568,142	\$ 2,432,005
Adjustments and reclassifications:		
Increasing (decreasing) the net position/fund balance:		
Cash adjustment	(254,932)	(254,932)
Capital assets	(3,125,717)	-
Net pension liability (Note 1.I.)	(48,973,984)	-
Net adjustments and reclassifications	(52,354,633)	(254,932)
Net Position/Fund Balance, July 1, 2014, as restated	\$ 131,213,509	\$ 2,177,073

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015*

NOTE 14 - RESERVE FOR ECONOMIC UNCERTAINTIES

As of June 30, 2015, the District had \$1,192,242 of unassigned ending fund balance in the General Fund. This represents 1.6% of total outgo, which is below the state's recommended 3% reserve level. The District's 2015-16 First Interim report projects that the District will be able to meet its reserve requirement as of June 30, 2016.

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Required Supplementary Information

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ADELANTO SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 56,434,116	\$ 58,340,946	\$ 58,290,894	\$ (50,052)
Federal sources	3,626,075	5,015,625	3,738,741	(1,276,884)
Other state sources	3,473,697	3,758,902	5,011,709	1,252,807
Other local sources	1,147,911	1,889,759	3,243,982	1,354,223
Total Revenues	64,681,799	69,005,232	70,285,326	1,280,094
Expenditures				
Current:				
Certificated salaries	28,859,936	30,533,355	30,532,570	785
Classified salaries	11,363,654	11,004,591	11,004,476	115
Employee benefits	11,853,393	13,571,438	14,978,026	(1,406,588)
Books and supplies	6,304,739	4,908,607	4,354,172	554,435
Services and other operating expenditures	9,149,331	12,450,581	11,065,327	1,385,254
Transfers of indirect costs	(223,973)	(268,309)	(279,965)	11,656
Intergovernmental	9,855	521,421	510,213	11,208
Capital outlay	242,829	237,716	1,743,256	(1,505,540)
Debt service	247,240	248,190	248,189	1
Total Expenditures	67,807,004	73,207,590	74,156,264	(948,674)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(3,125,205)	(4,202,358)	(3,870,938)	331,420
Other Financing Sources and Uses				
Interfund transfers out	-	(38,473)	(38,473)	-
Proceeds from capital leases	-	-	1,551,758	(1,551,758)
Total Other Financing Sources and Uses	-	(38,473)	1,513,285	(1,551,758)
Net Change in Fund Balance	(3,125,205)	(4,240,831)	(2,357,653)	(1,220,338)
Fund Balance, July 1, 2014	9,423,221	9,423,221	9,423,221	-
Fund Balance, June 30, 2015	\$ 6,298,016	\$ 5,182,390	\$ 7,065,568	\$ (1,220,338)

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve for Other Than Capital Outlay Projects and Self-Insurance Funds, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

The excess of expenditures over appropriations for employee benefits is due to booking the STRS on-behalf revenues and payments, which were not taken into consideration when developing the budget.

ADELANTO SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2015

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/1/2009	N/A	\$ 4,025,752	\$ 4,025,752	0.0%	\$ 33,685,400	12%
11/1/2011	N/A	4,072,850	4,072,850	0.0%	34,143,198	12%
12/1/2013	N/A	4,071,815	4,071,815	0.0%	34,134,522	12%

ADELANTO SCHOOL DISTRICT**Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2015**

Last Ten Fiscal Years*

	<u>2014</u>
District's proportion of the net pension liability (asset):	
CalSTRS	0.0530%
CalPERS	0.0976%
District's proportionate share of the net pension liability (asset):	
CalSTRS	\$ 30,971,610
CalPERS	\$ 11,079,976
District's covered-employee payroll:	
CalSTRS	\$ 26,275,442
CalPERS	\$ 10,210,863
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:	
CalSTRS	117.9%
CalPERS	108.5%
Plan fiduciary net position as a percentage of the total pension liability:	
CalSTRS	76.5%
CalPERS	83.4%

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

ADELANTO SCHOOL DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2015

Last Ten Fiscal Years*

	<u>2014</u>
Actuarially determined contribution:	
CalSTRS	\$ 2,167,724
CalPERS	\$ 1,168,327
Contributions in relation to the actuarially determined contribution:	
CalSTRS	\$ 2,167,724
CalPERS	<u>\$ 1,168,327</u>
Contribution deficiency (excess):	
CalSTRS	<u>\$ -</u>
CalPERS	<u>\$ -</u>
District's covered-employee payroll:	
CalSTRS	\$ 26,275,442
CalPERS	\$ 10,210,863
Contributions as a percentage of covered-employee payroll:	
CalSTRS	8.25%
CalPERS	11.442%

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

ADELANTO SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2015

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2015, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

General Fund	Amount
Current:	
Employee benefits	\$ 1,406,588
Capital outlay	1,505,540

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Supplementary Information

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ADELANTO SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2015

The Adelanto School District is an elementary school district established in 1873 and is comprised of an area of approximately 330 square miles located in San Bernardino County, encompassing a portion of the City of Adelanto and surrounding areas. There were no changes in the boundaries of the District during the current year. During the fiscal year, the District operated seven elementary schools (K-6), three K-8 schools, and two middle schools (7-8).

GOVERNING BOARD

Member	Office	Term Expires
Teresa Rogers	President	November, 2016
Debra S. Jones	Clerk	November, 2018
Holly Eckes	Member	November, 2016
Jason Hughes	Member	November, 2018
Evelyn Glasper	Member	November, 2018

DISTRICT ADMINISTRATORS

Edwin Gomez, Ed.D.,
Superintendent

Amy Nguyen-Hernandez, Ed.D.,
Chief Academic Officer

Ajay Mohindra,
Chief Business Officer

Steven Desist, ¹
Chief Personnel Officer

¹ Todd Beal became Chief Personnel Officer effective August 1, 2015.

ADELANTO SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2015

Grade Level	1986-87 Minutes		2014-15 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten	36,000	35,000	47,250	180	Complied
Grade 1	50,400	49,000	50,490	180	Complied
Grade 2	50,400	49,000	50,490	180	Complied
Grade 3	50,400	49,000	50,490	180	Complied
Grade 4	54,000	52,500	53,595	180	Complied
Grade 5	54,000	52,500	53,595	180	Complied
Grade 6	54,000	52,500	53,910	180	Complied
Grade 7	54,000	52,500	54,090	180	Complied
Grade 8	54,000	52,500	54,090	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2(a).

ADELANTO SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2015

General Fund	(Budget) 2016 ²	2015 ³	2014	2013
Revenues and other financing sources	\$ 83,417,879	\$ 71,837,084	\$ 57,752,992	\$ 53,857,716
Expenditures	74,957,868	74,156,264	61,329,943	54,583,263
Other uses and transfers out	40,000	38,473	320,441	-
Total outgo	74,997,868	74,194,737	61,650,384	54,583,263
Change in fund balance (deficit)	8,420,011	(2,357,653)	(3,897,392)	(725,547)
Ending fund balance	\$ 15,485,579	\$ 7,065,568	\$ 9,423,221	\$ 13,320,613
Available reserves ¹	\$ 7,186,412	\$ 1,192,242	\$ 2,584,128	\$ 7,831,224
Available reserves as a percentage of total outgo	9.6%	1.6%	4.2%	14.3%
Total long-term debt ⁴	\$ 79,630,078	\$ 82,709,946	\$ 91,216,197	\$ 38,752,730
Average daily attendance at P-2	7,856	7,856	7,643	7,972

The General Fund balance has decreased by \$6,255,045 over the past two years. The fiscal year 2015-16 adopted budget projects an increase of \$8,420,011. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in each of the past three years, but anticipates incurring an operating surplus during the 2015-16 fiscal year. Long-term debt has increased by \$43,957,216 over the past three years.

Average daily attendance has decreased by 116 over the past two years. ADA is expected to be unchanged in fiscal year 2015-16.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Revised Final Budget September, 2015.

³ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve for Other Than Capital Outlay Projects and Self-Insurance Funds, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

⁴ As restated.

ADELANTO SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2015*

*There were no differences between the Annual Financial and Budget Report and the
Audited Financial Statements in any funds.*

ADELANTO SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,604,974	
School Breakfast Program - Basic	10.553	13390	47,201	
National School Lunch Program	10.555	13391	3,286,553	
USDA Donated Foods	10.555	N/A	340,070	
Subtotal Child Nutrition Cluster				\$ 5,278,798
Cafeteria Fresh Fruit and Vegetable Program	10.582	14968		233,260
Total U.S. Department of Agriculture				5,512,058
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind Act (NCLB):				
Title I, Part A, Basic Grants	84.010	14329		1,547,178
Title II, Part A, Teacher Quality Local	84.367	14341		343,792
Title III, Limited English Proficiency	84.365	14346		70,751
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379		1,619,660
Total U.S. Department of Education				3,581,381
U.S. Department of Health & Human Services:				
Passed through California Department of Education (CDE):				
Medi-Cal Billing Option	93.778	10013		157,360
Total U.S. Department of Health & Human Services				157,360
Total Expenditures of Federal Awards				\$ 9,250,799

ADELANTO SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2015

<u>Name of Charter School</u>	<u>Included in District Audit?</u>
Alta Vista Public Charter	No
Desert Trails Preparatory Academy	No
Taylion High Desert Academy	No

ADELANTO SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met 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.

Districts must maintain their instructional minutes at the 1986-87 requirement, as reduced by Education Code Section 46201.2(a).

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

Other Independent Auditors' Reports

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**INDEPENDENT AUDITORS' 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 Trustees
Adelanto School District
Adelanto, 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 Adelanto School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Adelanto School District's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Adelanto 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 the Adelanto School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Adelanto School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2015-1 to be a material weakness.

Compliance and Other Matters

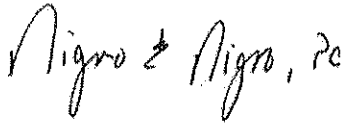
As part of obtaining reasonable assurance about whether Adelanto School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-2 through 2015-5.

Adelanto School District's Responses to Findings

Adelanto School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Adelanto School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Murrieta, California
December 14, 2015



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto School District
Adelanto, California

Report on State Compliance

We have audited Adelanto School District's compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Adelanto School District's state government programs as noted on the following page for the fiscal year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Adelanto School District's State programs based on our audit of the types of compliance requirements referred to below. 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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Adelanto 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 State program. However, our audit does not provide a legal determination of Adelanto School District's compliance.

In connection with the audit referred to on the prior page, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupation Centers or Programs Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Not Applicable
California Clean Energy Jobs Act	No (see below)
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the ADA was under the level that requires testing. We did not perform testing of the California Clean Energy Jobs Act because the District did not have an approved plan or expenditures in 2014-15.

Unmodified Opinion on Compliance with State Programs

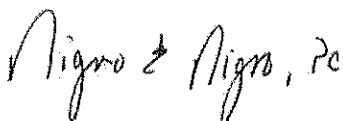
In our opinion, Adelanto School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-4 through 2015-5.

District's Responses to Findings

Adelanto School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Adelanto School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.



Murrieta, California
December 14, 2015



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

Board of Trustees
Adelanto School District
Adelanto, California

Report on Compliance for Each Major Federal Program

We have audited Adelanto School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Adelanto School District's major federal programs for the year ended June 30, 2015. Adelanto School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Adelanto 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-2 and 2015-3. Our opinion on each major federal program is not modified with respect to these matters.

Adelanto School District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Adelanto School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

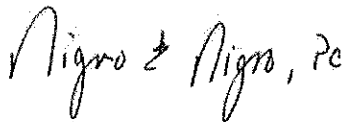
Report on Internal Control Over Compliance

Management of Adelanto 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 Adelanto 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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



Murrieta, California
December 14, 2015

Findings and Questioned Costs

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ADELANTO SCHOOL DISTRICT*Schedule of Audit Findings and Questioned Costs**For the Fiscal Year Ended June 30, 2015*

SECTION I - SUMMARY OF AUDITORS' RESULTS***Financial Statements***

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants</u>
<u>84.027</u>	<u>IDEA Local Assistance Entitlement</u>
<u>84.367</u>	<u>Title II, Part A, Teacher Quality Local</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2015-1: Cafeteria Fund Internal Controls (30000)

Criteria: The school food service program represents one of the most active and largest investments of the District; control and accountability are of significant concern.

Condition: During our test of cash controls, disbursements, and meal reimbursement claims, in the Cafeteria Fund we identified the following:

- The information entered for one site's reimbursements for free, reduced and paid breakfasts was entered in error, resulting in a reimbursement excess of \$402.71.
- Bank reconciliations were not completed during October 2014-January 2015. This resulted in an inaccurate bank balance on the general ledger, which in turn led to a check written for an amount in excess of the available balance when the attempt to transfer the funds to the County Treasury was made.
- In order to reconcile the ending cash, it was necessary to adjust the beginning fund balance in the Cafeteria Fund in the amount of \$254,932.
- We identified two disbursements that had no purchase order or evidence of pre-approval.
- A lack of segregated duties exists as the Director has the ability to
 - Authorize expenditures
 - Record financial transactions
 - Hold custody over checks and signing authority on the account
 - Reconcile financial data

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2015-1: Cafeteria Fund Internal Controls (30000) (continued)

Recommendation: We recognize that the District has taken steps to increase oversight in this area. As the District continues to refine the new processes and procedures, we make the following general recommendations:

- Review of all site reimbursement source documents to ensure the correct information is entered so as to avoid making errors in submission for reimbursement.
- Complete bank reconciliations no more than two weeks after receiving the bank statement. Reconciliations should not be performed by the same individual who records, authorizes or has custody over assets. Reconciliations should also be reviewed for accuracy.
- Cash disbursements should be preapproved to ensure they are allowable and are within budgetary restrictions.
- Duties should be segregated so that the same person cannot perform duties that include authorizing, recording, having custody of assets and reconciling. There are adequate staffing between the District Office and Nutrition Services to allow for such segregation.

District Response: The District will ensure that the bank reconciliation is done on a regular basis and records are maintained accurately. CNS has already implemented the segregation of duties where CNS Director is not the sole person to authorize payment for expenses and holder of checks and having the signature authority.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding 2015-2: National School Lunch Program OPEB Cost Allocations (50000)

Program Identification:

Federal Agency: U.S. Department of Agriculture

Pass-through Entity: California Department of Education

Program Names: School Breakfast Program (CFDA No. 10.553)

National School Lunch Program (CFDA No. 10.555)

Criteria: Expenditures for other postemployment benefits (OPEB) relating to previously retired employees represent costs that were not funded during the employees' years of service and those that cannot be identified with any program objective currently. These costs represent an obligation for which the District is liable but from which current programs derive no direct benefit. Federal programs may absorb a share of OPEB costs relating to retirees only if the costs are allocated to all activities and only if the allocation base is as broad as possible.

Condition: The District charged retirees who worked under the Food service program directly to the National School Lunch Program.

Questioned Costs: \$15,214.

Context: This affects the Child Nutrition Cluster.

Cause: The District charged the specific fund and program for the retirees rather than charging the costs across all activities. The District felt the charges were equitable between the General Fund and the Food Service Fund because the retirees' salaries while active originated in that fund.

Effect: The District did not charge costs across all activities.

Recommendation: We recommend the District allocate retiree OPEB costs across all activities broadly.

District Response: District agrees with the recommendation and will work towards developing a system where OPEB cost is charged to each program in which the employee salary is being charged in the current year across all district programs.

ADELANTO SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2015-3: Title I Carryover Limitation (50000)

Program Identification:

Federal Agency: U.S. Department of Education
Pass-through Entity: California Department of Education
Program Name: Title I, Part A (CFDA No. 84.010)

Criteria: An LEA that receives \$50,000 or more in Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds.

Condition: The District carried over more than 15 percent of its Title I, Part A, funding.

Questioned Costs: The amount of funds carried over in excess of the allowable 15 percent was \$195,992.

Context: This affects the Title I, Part A, program.

Cause: The District failed to spend or obligate 85 percent of the Title I, Part A allocation during the 15-month period of availability.

Recommendation: We recommend the District request a one-time waiver from this requirement to avoid losing the excess funds. In the future, the District should closely monitor these funds to ensure that no more than 15 percent of the grant award is carried over each year.

District Response: District is aware that Title I reserve was higher than the maximum allowable under the program as funds were held for certain expenditures which did not materialized. District will be filling a waiver and will spend down the funds in 2015-16 school year.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2015-4: School Accountability Report Card (72000)

Criteria: In conjunction with Education Code section 33126, schools are to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Education Code 17002.

Condition: We noted that the District does not maintain records of Facilities Inspection Tools to support the school facilities inspection outcome reported on the School Accountability Report Card for all school sites that we selected; Donald F. Bradach Elementary, Eagle Ranch School, Gus Franklin STEM Academy, Mesa Linda Middle School, and West Creek School.

Context: Five of the sites tested failed to provide the supporting FIT form.

Dollar Impact: None.

Recommendation: We recommended that the Facilities Department retain copies of site visits where facilities are inspected and reported on the SARC.

District Response: District has assigned a staff member to do annual facility inspection and maintain records of Facility Inspection Tools (FIT) to support the school facilities inspection outcome reported on the School Accountability Report Card (SARC).

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2015-5: Classroom Teacher Salaries (61000)

Criteria: Education Code 41372 states that elementary school districts shall expend an amount equal to or greater than 60 percent of the district's current expense of education on classroom teacher salaries.

Condition: The District did not meet the minimum requirement, having spent only \$64,354,855 (54.56 percent) on classroom compensation when they were required to spend \$66,510,743.

Questioned Cost: The deficiency amount is \$2,155,888. The County Superintendent of Schools may designate this amount from future apportionments, thereby restricting the funds pending determination of exemption.

Cause: The District increased the amount spent on salaries in 14-15 as they did in 13-14, however other spending caused the deficiency in achieving the required percentage.

Effect: The District did not meet the required percentage of classroom compensation.

Recommendation: The District should seek a waiver from the County, and plan accordingly for future years to bring the District back into compliance.

District Response: The District has negotiated a salary increase with the certificated and classified bargaining units to fulfill the requirements of the classroom expenditure. The District is also closely monitoring its other expenditures to ensure that minimum expenditure requirement is met.

ADELANTO SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2014-1: Capital Assets Accounting	Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP), Education Code Section 35168, and District Board Policy require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is an important aspect to the District.	30000	We recommend that the District contract for an outside consultant to perform a full physical inventory of all District assets, including all construction projects, improvements, equipment and accumulated depreciation. Then the District needs to ensure the individual responsible maintains the capital assets listing on a current basis.	Implemented.
Finding 2014-2: National School Lunch Program OPEB Cost Allocations	The District did not track capital asset additions for 2013-14 and the associated depreciation expense in a way that provided a clear audit trail. Additionally, the system report of prior asset inventory could not be reconciled to prior year audited amounts. The District's depreciation expense may be understated if the costs were for projects that were completed during the year and not added to the depreciation schedule; however, we believe the understatement of depreciation expense would be immaterial.	50000	We recommend the District allocate retiree OPEB costs across all activities broadly.	Not Implemented. See Finding 2015-2.
Expenditures for other postemployment benefits (OPEB) relating to previously retired employees represent costs that were not funded during the employees' years of service and those that cannot be identified with any program objective currently. These costs represent an obligation for which the District is liable but from which current programs derive no direct benefit.				

ADELANTO SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2014-2: National School Lunch Program OPEB Cost Allocations (continued)</i>	Federal programs may absorb a share of OPEB costs relating to retirees only if the costs are allocated to all activities and only if the allocation base is as broad as possible. The District charged retirees who worked under the Food service program directly to the National School Lunch Program.			
<i>Finding 2014-3: Paid Equity Lunch</i>	A school food authority (SFA) participating in the NSLP is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as "equity." There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-Federal sources. SFAs with an average weighted price at or above equity (currently \$2.59 for school year 2013-14) have already met the requirement (42 USC 1760(p); 7 CFR sections 210.14(a) and 210.14(e)). This District's weighted average calculation was \$2.33 for each paid meal during 2013-14. This amount is below the required price, therefore, the District should have made a contribution from other non-federal sources to supplement the cost of paid meals. The District did not make a contribution.	50000	The District must increase prices for paid meals served in order to increase the weighted average price in future years or seek exemptions for this requirement with the CDE or USDA.	Implemented.

ADELANTO SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2014-4 Cafeteria Fund Cash Reserves</i>	The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b). At June 30, 2015, fund balance in the Cafeteria Fund was \$4,391,296, which exceeds the average of three months expenditures by \$1,178,688.	50000	We recommend the District submit a spending plan to the CDE and obtain approval in spending the excess of allowable funds.	Implemented.
<i>Finding 2014-5: Clean Energy Jobs Act</i>	The California Energy Commission pursuant to Section 262335(f) of the Public Resources Code must approve the spending plan for an LEA. The LEA may receive and expend planning funds for energy audits and other plan development activities prior to submission of the plan. The District was awarded \$130,000 in planning funds but expended \$168,512. The District does not have an approved plan through the California Energy Commission, and is therefore not eligible to receive the additional award.	40000	We recommend the District file an expenditure plan with the California Energy Commission and obtain an approved plan before spending any additional funds.	Implemented.
<i>Finding 2014-6: Classroom Teacher Salaries</i>	Education Code 41372 states that elementary school districts shall expend an amount equal to or greater than 60 percent of the district's current expense of education on classroom teacher salaries. The District did not meet the minimum requirement, having spent only 54.56 percent on classroom compensation.	61000	The District should seek a waiver from the County, and plan accordingly for future years to bring the District back into compliance.	Not Implemented. See Finding 2015-1.

ADELANTO SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2014-7:</i> <i>Common Core Spending Plan</i>	As a condition of receiving Common Core Implementation Funds, a District must develop and adopt a plan delineating how the implementation funds will be spent per Assembly Bill 86, Section 85. The plan must be explained in a public meeting of the governing board of the school district before its adoption in a subsequent public meeting. The District presented and approved the Common Core Spending plan in the same meeting on January 7, 2014. There was not a subsequent meeting after the plan was presented in which the plan was adopted.	40000	We recommend that the District return the Common Core Spending Standards implementation funds or hold a separate meeting to adopt the plan as required.	Implemented.

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Board of Trustees
Adelanto School District
Adelanto, California

In planning and performing our audit of the basic financial statements of Adelanto School District for the year ending June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2015, on the financial statements of Adelanto School District.

DISTRICT-WIDE

Observation: During our test of thirty-two disbursements, we noted five exceptions including one purchase that was not preapproved, and four which were lacking adequate supporting documentation. Three of the disbursements lacking supporting documentation were credit card purchases, which did not have original itemized receipts.

Recommendation: We recommend the District retain adequate supporting documentation and original itemized receipts for all disbursements. Credit cards are especially susceptible to abuse since the user may make purchases without being immediately accountable for the purchase. By requiring adequate support the District can mitigate the risk of inappropriate purchases.

Observation: We noted during our test of cash receipts, that the same individual both prepares and signs batches that are then sent to the county treasury without supervisory approval. Additionally, we noted that five of ten cash deposits tested were not made in a timely manner. Deposits were made three weeks to several months after being collected.

Recommendation: In order to maintain adequate controls over cash receipting, another employee should review and approve the batches before releasing them to the county. Deposits should not be left in the safe for longer than a few days in order to avoid theft or other loss of assets.

ASSOCIATED STUDENT BODY (ASB) ACCOUNTS

Observation: During our testing of cash receipts at Columbia Middle, we noted a fundraiser was missing the order forms to support the cash deposited. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

Recommendation: We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

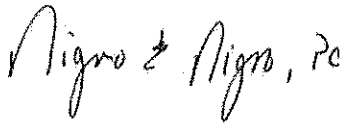
Observation: During our inquiries at Columbia Middle, we noted there are not at least two people who work ticket sales, and sign off on the amount of funds collected.

Recommendation: In order to maintain strong internal controls, we recommend that two people reconcile the amount of cash collected to the number of tickets, tallies, and other documentation used to substantiate collections.

Observation: During our test of cash disbursements at Columbia Middle, we noted one check was written to "cash" for the change fund.

Recommendation: We recommend that the ASB does not issue checks to "cash", but instead issues the check to the ASB advisor, and document that the purpose of the check is for the change fund. Issuing checks to "cash" provides the opportunity for an unintended party to cash the check.

We will review the status of the current year comments during our next audit engagement.



Murrieta, California
December 14, 2015