

ADELANTO SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2014



ADELANTO SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2014

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ADELANTO SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2014

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Financial Section

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NIGRO & NIGRO^{PC}

A PROFESSIONAL ACCOUNTANCY CORPORATION

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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, 2014, 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.

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 11, budgetary comparison information on page 40, and schedule of funding progress on page 41 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.

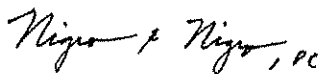
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adelanto School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014 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 10, 2014

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

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, 2014. 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 3.8% to \$183.6 million
- Total governmental revenues were \$67.3 million, \$7.3 million less than expenses.
- The total cost of basic programs was \$74.6 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 \$60.9 million.
- Average daily attendance (ADA) in grades K-8 decreased by 329, or 4.1%.

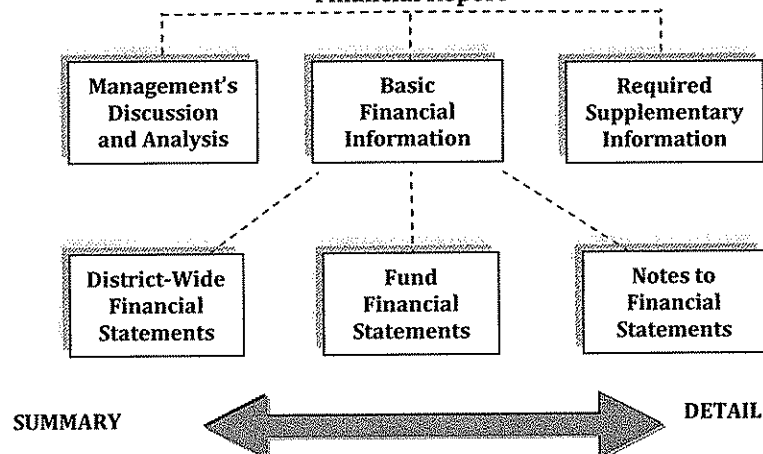
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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

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.



ADELANTO SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2014*

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, 2014

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, 2014***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Position. The District's combined net position was lower on June 30, 2014, than it was the year before – decreasing 3.8% to \$183.6 million (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Current assets	\$ 36.4	\$ 55.2	\$ (18.8)
Capital assets	192.5	181.1	11.4
Total assets	228.9	236.3	(7.4)
Current liabilities	6.1	6.7	(0.6)
Long-term debt liabilities	39.2	38.7	0.5
Total liabilities	45.3	45.4	(0.1)
Net position			
Net investment in capital assets	174.1	161.8	12.3
Restricted	26.8	40.1	(13.3)
Unrestricted	(17.3)	(11.0)	(6.3)
Total net position	\$ 183.6	\$ 190.9	\$ (7.3)

Changes in net position, governmental activities. The District's total revenues increased 6.7% to \$67.3 million (See Table A-2). The increase is due primarily to increased property tax receipts and federal and state aid.

The total cost of all programs and services increased 11.5% to \$74.6 million. The District's expenses are predominantly related to educating and caring for students, 72.5%. The purely administrative activities of the District accounted for just 7.7% of total costs. A significant contributor to the increase in costs was for instructional and pupil support services.

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Total Revenues	\$ 67.3	\$ 63.1	\$ 4.2
Total Expenses	74.6	66.9	7.7
Increase (decrease) in net position	\$ (7.3)	\$ (3.8)	\$ (3.5)

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

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 \$30.6 million, which is below last year's ending fund balance of \$48.9 million. The primary cause of the decreased fund balance is from expenditures related to the District's ongoing modernization projects.

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 \$6.7 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$1.5 million due to changes in salary estimates.
- Other non-capital expenses – increased \$4.5 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 \$4.7 million, the actual results for the year show that revenues fell short of expenditures by roughly \$3.6 million. Actual revenues were \$0.3 million less than anticipated, and expenditures were \$1.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013-14 the District had invested \$15.5 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 \$4.1 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Land	\$ 17.2	\$ 17.2	\$ -
Improvement of sites	3.2	3.5	(0.3)
Buildings	98.5	101.3	(2.8)
Furniture and equipment	4.9	3.5	1.4
Construction in progress	68.7	55.6	13.1
Total	<u>\$ 192.5</u>	<u>\$ 181.1</u>	<u>\$ 11.4</u>

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$39.2 million in general obligation bonds, certificates of participation, and employment benefits – a decrease of 1.3% 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
	2014	2013	Increase (Decrease)
General obligation bonds	\$ 25.7	\$ 26.1	\$ (0.4)
Certificates of participation	9.0	9.1	(0.1)
Early retirement incentives	0.6	0.4	0.2
Compensated absences	0.5	0.5	(0.0)
Other postemployment benefits	3.4	2.6	0.8
Total	<u>\$ 39.2</u>	<u>\$ 38.7</u>	<u>\$ 0.5</u>

* As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of \$152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of \$108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and \$44.3 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

Major Features of the 2014-15 Spending Plan

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

Fully Funds CalSTRS Pension Program

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

Proposition 98

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Spending Changes

Funding for K-14 education increases significantly under the new budget package. In the sections that follow, we describe how the State is spending these funds.

Deferral Payments

Pays Down \$5.2 Billion in Outstanding Deferrals

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, and \$662 million is designated as 2014-15 spending. Under the budget plan, \$992 million in deferrals (\$897 million for schools and \$94 million for community colleges) would remain outstanding at the end of 2014-15.

Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates

The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first \$992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

Mandates

Pays Down \$450 Million in Outstanding Education Mandate Claims

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. The budget includes \$400 million to reduce the mandate backlog for schools. (Of this amount, \$287 million is 2014-15 Proposition 98 funding and \$113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

Adds Several Mandates to School and Community College Block Grants

The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

Energy Grants

State Provides Second-Year Funding for Energy Projects

Passed by voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The 2014-15 budget provides \$345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides \$279 million for school grants, \$38 million for community colleges grants, and \$28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides \$8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps (\$5 million) and the California Workforce Investment Board (\$3 million).

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Chapter 751 Obligation

Makes Final \$410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06

The 2014-15 budget makes a final \$410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of \$2.8 billion had been provided. Of the amount provided in the budget package, \$316 million is for continued funding of the QEIA program (\$268 million for schools and \$48 million for community colleges) and \$94 million is to pay down a separate state obligation related to school facility repairs.

K-12 Education

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

Operational Funding

Provides \$4.7 Billion for LCFF Implementation

The budget plan includes \$4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes \$26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

Other Notable K-12 Actions

The budget provides \$54 million to continue implementation of new student assessments and \$33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

Infrastructure

Allocates \$189 Million for Emergency Repair Program (ERP)

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of \$800 million for the program. The state has provided \$338 million to date. The budget provides \$189 million for the ERP in 2014-15.

Allocates \$27 Million in One-Time Funds for School Internet Infrastructure

The budget includes \$27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Shifts Remaining Bond Authority Among Certain School Facility Programs

The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

Local Reserves

Requires School Districts to Disclose and Justify Reserves

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the amount of reserves that exceed the minimum and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

Caps Local Reserves Some Years Under Proposition 2

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 3 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Adelanto School District budget for the 2014-15 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, 2014*

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 24,285,336
Investments	1,101,944
Accounts receivable	10,068,264
Inventories	197,063
Prepaid expenses	693,880
Total current assets	<u>36,346,487</u>
Capital Assets:	
Non-depreciable assets	85,956,282
Depreciable assets	153,749,286
Less accumulated depreciation	<u>(47,204,190)</u>
Total capital assets, net of depreciation	<u>192,501,378</u>
Total assets	<u>228,847,865</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	6,037,755
Unearned revenue	37,665
Total current liabilities	<u>6,075,420</u>
Long-term liabilities:	
Portion due or payable within one year	2,696,157
Portion due or payable after one year	36,508,146
Total long-term liabilities	<u>39,204,303</u>
Total liabilities	<u>45,279,723</u>
 NET POSITION	
Net investment in capital assets	174,134,739
Restricted for:	
Capital projects	14,665,470
Debt service	3,678,096
Categorical programs	8,414,685
Unrestricted	<u>(17,324,848)</u>
Total net position	<u>\$ 183,568,142</u>

ADELANTO SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instructional services:						
Instruction	\$ 35,850,837	\$ 431	\$ 6,347,061	\$ 78,621	\$ (29,424,724)	
Instruction-related services:						
Supervision of instruction	1,502,098	-	414,933	-	(1,087,165)	
Instructional library, media and technology	351,802	-	-	-	(351,802)	
School site administration	4,680,399	-	72,707	-	(4,607,692)	
Pupil support services:						
Home-to-school transportation	2,875,008	-	7,710	-	(2,867,298)	
Food services	5,224,084	149,864	5,451,262	-	377,042	
All other pupil services	3,588,481	4,296	161,632	-	(3,422,553)	
General administration services:						
Data processing services	726,630	-	-	-	(726,630)	
Other general administration	5,033,028	-	252,316	-	(4,780,712)	
Plant services	7,556,035	17,249	179,132	-	(7,359,654)	
Ancillary services	225					
Community services	46,284	538	34,388	-	(11,358)	
Interest on long-term debt	2,600,218	-	-	-	(2,600,218)	
Other outgo	423,140	512,039	29,639	-	118,538	
Depreciation (unallocated)	4,121,195	-	-	-	(4,121,195)	
Total Governmental Activities	\$ 74,579,464	\$ 684,417	\$ 12,950,780	\$ 78,621	(60,865,646)	
General Revenues:						
Property taxes					8,651,316	
Federal and state aid not restricted to specific purpose					44,262,627	
Interest and investment earnings					25,094	
Interagency revenues					127,067	
Miscellaneous					451,577	
Total general revenues					53,517,681	
Change in net position					(7,347,965)	
Net position, July 1, 2013					190,916,107	
Net position, June 30, 2014					\$ 183,568,142	

ADELANTO SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 3,854,931	\$ 14,784,994	\$ 5,645,411	\$ 24,285,336
Investments	-	-	1,101,944	1,101,944
Accounts receivable	9,137,853	35,009	895,402	10,068,264
Due from other funds	413,388	-	198,040	611,428
Inventories	102,534	-	94,529	197,063
Prepaid expenditures	693,880	-	-	693,880
Total Assets	<u>\$ 14,202,586</u>	<u>\$ 14,820,003</u>	<u>\$ 7,935,326</u>	<u>\$ 36,957,915</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,777,417	\$ 842,843	87,425	\$ 5,707,685
Unearned revenue	-	-	37,665	37,665
Due to other funds	-	-	611,428	611,428
Total Liabilities	<u>4,777,417</u>	<u>842,843</u>	<u>736,518</u>	<u>\$ 6,356,778</u>
Fund Balances				
Nonspendable	856,414	-	95,425	951,839
Restricted	5,982,680	13,977,160	7,056,786	27,016,626
Committed	-	-	46,597	46,597
Assigned	453	-	-	453
Unassigned	2,585,622	-	-	2,585,622
Total Fund Balances	<u>9,425,169</u>	<u>13,977,160</u>	<u>7,198,808</u>	<u>30,601,137</u>
Total Liabilities and Fund Balances	<u>\$ 14,202,586</u>	<u>\$ 14,820,003</u>	<u>\$ 7,935,326</u>	<u>\$ 36,957,915</u>

ADELANTO SCHOOL DISTRICT***Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014***

Total fund balances - governmental funds **\$ 30,601,137**

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 \$239,705,568 and the accumulated depreciation is (\$47,204,190). 192,501,378

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: (330,070)

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	25,695,519	
Certificates of participation payable	8,966,786	
Compensated absences payable	475,850	
Early retirement incentive	627,786	
Other postemployment benefits	<u>3,438,362</u>	<u>(39,204,303)</u>

Total net position - governmental activities **\$ 183,568,142**

ADELANTO SCHOOL DISTRICT**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**
For the Fiscal Year Ended June 30, 2014

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 47,606,239	\$ -	\$ 294,141	\$ 47,900,380
Federal sources	3,479,610	-	5,184,627	8,664,237
Other state sources	4,905,844	-	435,189	5,341,033
Other local sources	1,761,306	78,621	3,485,928	5,325,855
Total Revenues	57,752,999	78,621	9,399,885	67,231,505
EXPENDITURES				
Current:				
Instruction	35,620,340	-	-	35,620,340
Instruction-related services:				
Supervision of instruction	1,502,098	-	-	1,502,098
Instructional library, media and technology	351,802	-	-	351,802
School site administration	4,654,015	-	-	4,654,015
Pupil support services:				
Home-to-school transportation	2,784,709	-	-	2,784,709
Food services	23,131	-	5,127,263	5,150,394
All other pupil services	3,583,424	-	-	3,583,424
Community services	46,284	-	-	46,284
General administration services:				
Data processing services	707,821	-	-	707,821
Other general administration	4,844,479	-	-	4,844,479
Plant services	6,806,480	-	494,876	7,301,356
Ancillary services	225	-	-	225
Transfers of indirect costs	(137,586)	-	137,586	-
Intergovernmental transfers	412,553	-	-	412,553
Capital outlay	130,167	15,346,199	4,097	15,480,463
Debt service:				
Principal	-	-	949,999	949,999
Interest	-	-	2,121,188	2,121,188
Total Expenditures	61,329,942	15,346,199	8,835,009	85,511,150
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,576,943)	(15,267,578)	564,876	(18,279,645)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	320,441	320,441
Interfund transfers out	(320,441)	-	-	(320,441)
Total Other Financing Sources and Uses	(320,441)	-	320,441	-
Net Change in Fund Balances	(3,897,384)	(15,267,578)	885,317	(18,279,645)
Fund Balances, July 1, 2013, as originally stated	13,563,015	29,244,738	6,073,029	48,880,782
Adjustment for restatement	(240,462)	-	240,462	-
Fund Balances, July 1, 2013, as restated	13,322,553	29,244,738	6,313,491	48,880,782
Fund Balances, June 30, 2014	\$ 9,425,169	\$ 13,977,160	\$ 7,198,808	\$ 30,601,137

The notes to financial statements are an integral part of this statement.

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, 2014***

Total net change in fund balances - governmental funds **\$ (18,279,645)**

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	15,533,855	
Depreciation expense	<u>(4,121,195)</u>	11,412,660

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:

949,999

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:

(449,624)

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:

(810,737)

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:

(161,845)

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:

(29,407)

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*).

31,221

Change in net position of governmental activities **\$ (7,347,965)**

ADELANTO SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2014

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	\$ 8,528	\$ -
Investments	-	4,690,122
Total Assets	<u>\$ 8,528</u>	<u>\$ 4,690,122</u>
Liabilities		
Due to bondholders	\$ -	\$ 4,690,122
Due to student groups	8,528	-
Total Liabilities	<u>\$ 8,528</u>	<u>\$ 4,690,122</u>

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING 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. The District's component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Trustees also serves as the governing board for the Community Facilities Districts.

Component Unit	Included in the Reporting Entity Because:	Separate Financial Statements
Community Facilities Districts (CFD): The District has entered into various agreements with developers to establish CFDs. The purpose of the agreements is to provide for the collection of special taxes to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs.	Board of Trustees composes board of CFD	Not prepared.

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, 2014

NOTE 1 - 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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - 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 Funds:

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.

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, 2014

NOTE 1 - 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. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. 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.

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.

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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, 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. 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.

5. 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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. 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.

7. 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 no deferred outflows of resources.

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 no deferred inflows of resources.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. 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.
- **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. 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.

G. New GASB Pronouncement

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

Statement No. 65, Items Previously Reported as Assets and Liabilities (Issued 03/12)

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014*

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**G. New GASB Pronouncement (continued)****Statement No. 65 (continued)**

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2014 are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 22,263,187	\$ -
Deposits:		
Cash on hand and in banks	1,961,254	8,528
Cash in revolving fund	60,895	-
Total Deposits	2,022,149	8,528
Total Cash	\$ 24,285,336	\$ 8,528
Investments:		
Fidelity Institutional Gov. Money Market	\$ 1,101,944	\$ 4,690,122

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, 2014, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014*

NOTE 2 – CASH AND INVESTMENTS (continued)**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 Depository 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, 2014, \$1,855,230 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2014 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
Fidelity Institutional Gov. Money Market	\$ 5,792,066	\$ 5,792,066	\$ -

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2014, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2014, the District had the following investments that represents more than five percent of the District's net investments.

Fidelity Institutional Gov. Money Market	100%
--	------

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014*

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government:				
Categorical aid programs	\$ 1,390,809	\$ -	\$ 825,674	\$ 2,216,483
State Government:				
LCFF	6,636,184	-	-	6,636,184
Lottery	617,585	-	-	617,585
Categorical aid programs	62,694	-	69,250	131,944
Local:				
Interest	6,996	14,675	478	22,149
Miscellaneous	423,585	20,334	-	443,919
Total	<u>\$ 9,137,853</u>	<u>\$ 35,009</u>	<u>\$ 895,402</u>	<u>\$ 10,068,264</u>

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

Balances due to/from other funds at June 30, 2014 consisted of the following:

Cafeteria Fund due to General Fund for payroll expenditures paid on behalf of fund	\$ 413,388
Capital Facilities Fund due to Debt Service Fund for Blended Component Units for COP payment	198,040
	<u>\$ 611,428</u>

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2014 consisted of the following:

General Fund transfer to Debt Service Fund for Blended Component Units for COP payment	<u>\$ 320,441</u>
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ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014***NOTE 5 - FUND BALANCES****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.

At June 30, 2014, fund balances of the District's governmental funds were classified as follows:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 60,000	\$ -	\$ 895	\$ 60,895
Stores inventories	102,534	-	94,530	197,064
Prepaid expenditures	693,880	-	-	693,880
Total Nonspendable	856,414	-	95,425	951,839
Restricted:				
Categorical programs	5,982,680	-	-	5,982,680
Child nutrition program	-	-	2,336,580	2,336,580
Capital projects	-	13,977,160	1,042,110	15,019,270
Debt service	-	-	3,678,096	3,678,096
Total Restricted	5,982,680	13,977,160	7,056,786	27,016,626
Committed:				
Deferred maintenance program	-	-	46,597	46,597
Total Committed	-	-	46,597	46,597
Assigned:				
Other assignments	453	-	-	453
Total Assigned	453	-	-	453
Unassigned:				
Reserve for economic uncertainties	1,905,124	-	-	1,905,124
Remaining unassigned balances	680,498	-	-	680,498
Total Unassigned	2,585,622	-	-	2,585,622
Total	\$ 9,425,169	\$ 13,977,160	\$ 7,198,808	\$ 30,601,137

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 17,245,742	\$ -	\$ -	\$ 17,245,742
Construction in progress	55,565,560	13,683,526	538,546	68,710,540
Total capital assets not being depreciated	72,811,302	13,683,526	538,546	85,956,282
Capital assets being depreciated:				
Improvement of sites	7,371,432	-	-	7,371,432
Buildings	133,289,614	538,546	-	133,828,160
Equipment	10,699,365	1,850,329	-	12,549,694
Total capital assets being depreciated	151,360,411	2,388,875	-	153,749,286
Accumulated depreciation for:				
Improvement of sites	(3,895,552)	(322,869)	-	(4,218,421)
Buildings	(31,944,986)	(3,359,087)	-	(35,304,073)
Equipment	(7,242,457)	(439,239)	-	(7,681,696)
Total accumulated depreciation	(43,082,995)	(4,121,195)	-	(47,204,190)
Total capital assets being depreciated, net	108,277,416	(1,732,320)	-	106,545,096
Governmental activity capital assets, net	\$ 181,088,718	\$ 11,951,206	\$ 538,546	\$ 192,501,378

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 10,583,652	\$ -	\$ 829,999	\$ 9,753,653	\$ 851,225
Accreted interest component	15,492,242	1,751,703	1,302,079	15,941,866	1,460,007
Total - G.O. Bonds	26,075,894	1,751,703	2,132,078	25,695,519	2,311,232
Certificates of Participation:					
Principal repayments	9,325,000	-	120,000	9,205,000	135,000
Unamortized issuance discount	(248,801)	-	(10,587)	(238,214)	(10,587)
Total - COPs	9,076,199	-	109,413	8,966,786	124,413
Compensated Absences	507,071	-	31,221	475,850	-
Early Retirement Incentives	465,941	429,780	267,935	627,786	260,512
Other Postemployment Benefits	2,627,625	810,737	-	3,438,362	-
Totals	\$ 38,752,730	\$ 2,992,220	\$ 2,540,647	\$ 39,204,303	\$ 2,696,157

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. 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, 2014***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, 2013	Additions	Deductions	Balance, June 30, 2014
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 1,462,752	\$ -	\$ 209,145	\$ 1,253,607
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	2,374,120	-	351,459	2,022,661
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	1,021,771	-	142,339	879,432
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,725,009	-	127,056	5,597,953
				<u>\$ 21,995,645</u>	<u>\$ 10,583,652</u>	<u>\$ -</u>	<u>\$ 829,999</u>	<u>\$ 9,753,653</u>
<u>Accreted Interest</u>								
				1993	\$ 2,298,468	\$ 213,585	\$ -	\$ 2,512,053
				1994	3,733,833	621,221	896,474	3,458,580
				1996	1,619,060	147,450	232,661	1,533,849
				1997	7,840,881	769,447	172,944	8,437,384
					<u>\$ 15,492,242</u>	<u>\$ 1,751,703</u>	<u>\$ 1,302,079</u>	<u>\$ 15,941,866</u>

The amounts required to amortize general obligation bonds payable at June 30, 2014 were:

Fiscal Year	Principal	Interest	Total
2014-15	\$ 851,225	\$ 1,939,734	\$ 2,790,959
2015-16	875,269	2,191,879	3,067,148
2016-17	902,131	2,473,495	3,375,626
2017-18	931,941	2,793,599	3,725,540
2018-19	940,166	3,089,834	4,030,000
2019-23	5,252,921	14,442,079	19,695,000
Total	<u>\$ 9,753,653</u>	<u>\$ 26,930,620</u>	<u>\$ 36,684,273</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014*

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, 2014 the principal balance outstanding was \$9,205,000.

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

Fiscal Year	Principal	Interest	Total
2014-15	\$ 135,000	\$ 393,384	528,384
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
2019-24	1,340,000	1,683,913	3,023,913
2024-29	1,985,000	1,330,362	3,315,362
2029-34	2,830,000	808,937	3,638,937
2034-37	2,205,000	148,641	2,353,641
Total	<u>\$ 9,205,000</u>	<u>\$ 5,875,960</u>	<u>\$ 15,080,960</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, 2014 for these obligations are shown below.

Future Years	Amount
2014-15	\$ 260,512
2015-16	140,659
2016-17	140,659
2017-18	85,956
Total	<u>\$ 627,786</u>

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014*

NOTE 7 – GENERAL LONG-TERM DEBT (continued)**D. 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 \$18,880,000 as of June 30, 2014, 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.

Condensed audited financial information is as follows:

	SCSRM June 30, 2014	SCSEBA June 30, 2013
Total Assets	\$ 53,473,271	\$ 22,968,423
Total Liabilities	15,751,663	9,201,391
Total Net Position	<u>\$ 37,721,608</u>	<u>\$ 13,767,032</u>
Revenues	\$ 32,043,251	\$ 120,644,846
Expenses	34,087,198	121,840,979
Operating Income (Loss)	(2,043,947)	(1,196,133)
Non-Operating Revenue (Expense)	(19,602)	(2,902,339)
Change in Net Position	<u>\$ (2,063,549)</u>	<u>\$ (4,098,472)</u>

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014, 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 2013-14, 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, 2014, the District had commitments with respect to unfinished capital projects of \$4.4 million to be paid from a combination of State and local funds.

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, 2014.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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 State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2013-14	\$ 1,168,327	100%
2012-13	\$ 1,044,457	100%
2011-12	\$ 951,908	100%

State Teachers' Retirement System (STRS)

Plan Description

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. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2013-14	\$ 2,167,724	100%
2012-13	\$ 2,075,568	100%
2011-12	\$ 1,944,978	100%

ADELANTO SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014***NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)****State Teachers' Retirement System (STRS) (continued)****On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$1.1 million to STRS (4.267% of salaries subject to STRS in 2013-14).

Alternative Retirement Program (ARP)**Plan Description**

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers part-time, seasonal and temporary employees and employees not covered by another retirement system, pursuant to the requirements of Internal Revenue Code Section 3121(b)(7)(f). The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by the ARP Board of Trustees.

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$130,567 during 2013-14. The total amount of covered compensation was \$1,740,882. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

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	547

**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):

	Certificated	Classified	Management
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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)

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. The District established the self insurance fund to set aside funds of this liability. For fiscal year 2013-14, the District contributed \$161,479.

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	124,811
Adjustment to ARC	(116,461)
Annual OPEB cost	972,216
Contributions made:	(161,479)
Increase in net OPEB obligation	810,737
Net OPEB obligation - July 1, 2013	2,627,625
Net OPEB obligation - June 30, 2014	<u>\$ 3,438,362</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013-14 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 880,132	32%	\$ 2,028,872
2013	\$ 883,555	32%	\$ 2,627,625
2014	\$ 972,216	17%	\$ 3,438,362

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, 2014

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 – SUBSEQUENT EVENT

In August 2014, the District entered into a six year capital lease agreement for five school buses at a total cost of \$1,732,080 including principal and interest.

NOTE 14 – FUTURE GASB PRONOUNCEMENT

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the District's financial reporting:

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.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 14 – FUTURE GASB PRONOUNCEMENT (continued)

Statement No. 68 (continued)

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.

NOTE 15 – ADJUSTMENT FOR RESTATEMENT

The beginning fund balance of the General Fund and the Non-Major Governmental Funds have been restated on the Statement of Revenues, Expenditures, and Changes in Fund Balance by \$240,462 to remove the portion of the Deferred Maintenance Fund, which was formerly reported in the General Fund in accordance with GASB Statement No. 54. Due to the Board authorizing the commitment of funds, the activity of the Deferred Maintenance Fund is no longer required to be reported as part of the General Fund.

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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, 2014*

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 39,470,892	\$ 47,233,213	\$ 47,606,239	\$ 373,026
Federal sources	3,299,066	4,047,570	3,479,610	(567,960)
Other state sources	7,503,015	5,193,222	4,905,844	(287,378)
Other local sources	1,090,006	1,554,403	1,761,299	206,896
Total Revenues	51,362,979	58,028,408	57,752,992	(275,416)
Expenditures				
Current:				
Certificated salaries	26,546,092	27,105,610	27,105,610	-
Classified salaries	9,953,039	10,398,338	10,398,338	-
Employee benefits	10,687,927	11,137,226	10,471,310	665,916
Books and supplies	2,577,609	3,839,060	3,621,581	217,479
Services and other operating expenditures	6,843,476	9,629,081	9,274,577	354,504
Intergovernmental	(223,973)	274,967	274,967	-
Capital Outlay	-	389,101	183,560	205,541
Total Expenditures	56,384,170	62,773,383	61,329,943	1,443,440
Net Change in Fund Balances	(5,021,191)	(4,744,975)	(3,576,951)	1,168,024
Other Financing Sources and Uses				
Interfund Transfers Out	(520,884)	(320,441)	(320,441)	-
Fund Balance, July 1, 2013	13,320,613	13,320,613	13,320,613	-
Fund Balance, June 30, 2014	\$ 7,778,538	\$ 8,255,197	\$ 9,423,221	\$ 1,168,024

* 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.

ADELANTO SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

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

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2014

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.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2014, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

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Supplementary Information

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ADELANTO SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2014

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
Elaine Gonzales	President	November, 2016
Teresa Rogers	Clerk	November, 2016
Lisa Marie Garcia	Member	November, 2014
Debra Jones	Member	November, 2016
Christine Turner	Member	November, 2014

DISTRICT ADMINISTRATORS

Edwin Gomez, Ed.D.,
Superintendent

Laura Carevic,
Assistant Superintendent, Business Services

Steven Desist,
Assistant Superintendent, Human Resources

ADELANTO SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2014

Second Period Report - Certificate No. (A260E7DE)

Regular ADA:	TK/K-3	Grades 4-6	Grades 7-8	Total
Regular ADA	3,470.20	2,544.50	1,620.90	7,635.60
Extended Year Special Education	1.34	0.61	0.49	2.44
Special Education - Nonpublic, Nonsectarian Schools	1.15	2.66	0.77	4.58
Extended Year Nonpublic, Nonsectarian Schools	-	0.05	0.18	0.23
Total ADA	3,472.69	2,547.82	1,622.34	7,642.85

Other (included in Regular ADA amounts):

Full-Time Independent Study	14.99
Transitional Kindergarten	95.01
Opportunity Classes	8.18

Annual Report - Certificate No. (CA0B359A)

Regular ADA:	TK/K-3	Grades 4-6	Grades 7-8	Total
Regular ADA	3,473.16	2,540.44	1,614.66	7,628.26
Extended Year Special Education	1.34	0.61	0.49	2.44
Special Education - Nonpublic, Nonsectarian Schools	1.26	2.88	0.71	4.85
Extended Year Nonpublic, Nonsectarian Schools	-	0.06	0.18	0.24
Total ADA	3,475.76	2,543.99	1,616.04	7,635.79

Other (included in Regular ADA amounts):

Full-Time Independent Study	17.99
Transitional Kindergarten	94.54
Opportunity Classes	7.72

ADELANTO SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2014

Grade Level	1986-87 Minutes		2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten	36,000	35,000	46,405	180	Complied
Grade 1	50,400	49,000	49,030	180	Complied
Grade 2	50,400	49,000	49,030	180	Complied
Grade 3	50,400	49,000	49,030	180	Complied
Grade 4	54,000	52,500	52,530	180	Complied
Grade 5	54,000	52,500	52,530	180	Complied
Grade 6	54,000	52,500	52,705	180	Complied
Grade 7	54,000	52,500	52,525	180	Complied
Grade 8	54,000	52,500	52,525	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, 2014

General Fund	(Budget) 2015 ²	2014 ³	2013	2012
Revenues and other financing sources	\$ 66,236,636	\$ 57,752,992	\$ 53,857,716	\$ 54,603,516
Expenditures	68,137,078	61,329,943	54,583,263	52,174,809
Other uses and transfers out	38,473	320,441	-	-
Total outgo	68,175,551	61,650,384	54,583,263	52,174,809
Change in fund balance (deficit)	(1,938,915)	(3,897,392)	(725,547)	2,428,707
Ending fund balance	\$ 7,484,306	\$ 9,423,221	\$ 13,320,613	\$ 14,046,160
Available reserves ¹	\$ 2,536,467	\$ 2,584,128	\$ 7,831,224	\$ 8,020,181
Available reserves as a percentage of total outgo	3.7%	4.2%	14.3%	15.4%
Total long-term debt	\$ 36,508,146	\$ 39,204,303	\$ 38,752,730	\$ 39,283,320
Average daily attendance at P-2	7,791	7,643	7,972	8,009

The General Fund balance has decreased by \$4,622,939 over the past two years. The fiscal year 2014-15 adopted budget projects a decrease of \$1,938,915. 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 two of the past three years, and anticipates incurring an operating deficit during the 2014-15 fiscal year. Long-term debt has decreased by \$79,017 over the past three years.

Average daily attendance has decreased by 366 over the past two years. An increase of 148 ADA is anticipated during fiscal year 2014-15.

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

² Revised Final Budget September 2014.

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.

ADELANTO SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

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	\$ 1,558,024	
School Breakfast Program - Basic	10.553	13390	49,642	
National School Lunch Program	10.555	13391	3,237,724	
USDA Donated Foods	10.555	N/A	252,261	
Subtotal Child Nutrition Cluster				\$ 5,097,651
Cafeteria Fresh Fruit and Vegetable	10.582	14968		81,432
Total U.S. Department of Agriculture				5,179,083
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		1,541,425
Title II, Part A, Teacher Quality Local	84.367	14341		177,801
Title III, Limited English Proficiency	84.365	14346		70,577
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379	1,522,897	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	466	
Preschool Local Entitlement, Part B	84.027A	13682	723	
Total Special Education (IDEA) Cluster				1,524,086
Total U.S. Department of Education				3,313,889
U.S. Department of Health & Human Services:				
Passed through California Department of Education (CDE):				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	276,899	
Medi-Cal Administrative Activities (MAA)	93.778	10060	5,095	
Subtotal Medicaid Cluster				281,994
Total U.S. Department of Health & Human Services				281,994
Total Expenditures of Federal Awards				\$ 8,774,966

ADELANTO SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2014*

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

ADELANTO SCHOOL DISTRICT*Schedule of Charter Schools**For the Fiscal Year Ended June 30, 2014*

<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, 2014

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.

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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

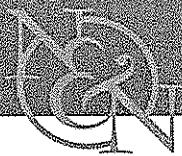
This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

Schedule of 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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NIGRO & NIGRO^{PC}

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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, 2014, 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 10, 2014.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-1 that we consider to be a significant deficiency.

Compliance and Other Matters

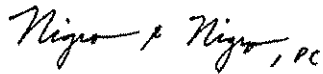
As part of obtaining reasonable assurance about whether Adelanto School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 2014-2 through 2014-7.

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 10, 2014



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto School District
Adelanto, California

Report on Compliance for State Programs

We have audited Adelanto School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Adelanto School District's state programs are identified below.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not applicable
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

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, 2014.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-5 through 2014-7.

District's Response 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.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

Murrieta, California
December 10, 2014



NIGRO & NIGRO^{PC}

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

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, 2014. 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, 2014.

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 2014-2 through 2014-4. 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.

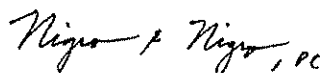
Report on Internal Control Over Compliance

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 10, 2014

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, 2014

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>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</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:	
CFDA Numbers	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	<u>Child Nutrition Cluster</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

Internal control over state 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 state programs:	<u>Unmodified</u>

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2014

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
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2014-1: Capital Assets Accounting (30000)

Criteria: 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.

Condition: 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.

Recommendation: 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.

District Response: District is contracting with an outside agency to update the data base of fixed assets and all related schedules including the depreciation schedule. The District employee will be trained and will be responsible for keeping the data base and schedules up to date in the future.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2014

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 2014-2: 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: \$13,452

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: The District agrees with the recommendation and will work towards developing a system where OPEB costs are 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, 2014

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

Finding 2014-3: Paid Equity Lunch (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: 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)).

Condition: 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.

Questioned Cost: \$18,508

Context: It is a district-wide issue.

Cause: The Cafeteria Fund currently has excess reserves (see Finding 2014-4). As a result, the District did not see a need to increase the prices, although they calculated a requirement to raise prices by \$0.11 for elementary and \$0.10 for middle schools.

Effect: Since the District did not charge enough for paid lunches, the cost of food for students that are ineligible for free or reduced priced meals is encroaching upon federal funds.

Recommendation: 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.

District Response: The District will evaluate and calculate the necessary price increase for the paid lunch program in order to stay in compliance. As the district has a high ending balance and high percentage of students eligible for free and reduced lunch the district may seek an exemption from the State of California.

ADELANTO SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

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

Finding 2014-4 Cafeteria Fund Cash Reserves (50000)

Program Identification:

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: Child Nutrition Cluster:
 School Breakfast Program (CFDA No. 10.553)
 National School Lunch Program (CFDA No. 10.555)

Criteria: 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).

Condition: At June 30, 2014, fund balance in the Cafeteria Fund was \$4,391,296, which exceeds the average of three months expenditures by \$1,178,688.

Context: This affects the Child Nutrition Cluster.

Questioned Costs: None.

Cause: The District has more than three months worth of expenditures in its ending fund balance.

Effect: Funds that could be used to improve the program are being kept unspent.

Recommendation: We recommend the District submit a spending plan to the CDE and obtain approval in spending the excess of allowable funds.

District Response: The District will evaluate the needs of the food service department and will purchase and replace old equipment in order to reduce the fund balance in the near future.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2014

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2014-5: Clean Energy Jobs Act (40000)

Criteria: The California Energy Commission pursuant to Section 26235(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.

Condition: 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.

Questioned Cost: The District's spending for the Clean Energy Jobs Act exceeded the planning award by \$38,512.

Cause: The District did not submit an expenditure plan to the California Energy Commission, which would have covered the excess expenditures if approved.

Effect: The District spent an excess amount for a program that was not approved.

Recommendation: We recommend the District file an expenditure plan with the California Energy Commission and obtain an approved plan before spending any additional funds.

District's Response: The District is working with an outside vendor to develop a proposal for the Clean Energy program to be submitted to the State in order to qualify for the funding and will monitor the expenses as it relates to the program and not exceed the allocated amount.

Finding 2014-6: 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 54.56 percent on classroom compensation.

Questioned Cost: The deficiency amount is \$2,947,442. The county superintendent of schools may designate this amount from future apportionments, thereby restricting the funds pending determination of exemption.

Cause: The District spent a similar amount on salaries in 13-14 as they did in 12-13, 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's Response: The District will review the expenditures to ensure that Ed Code requirement is met in the future years and will request a waiver from the County office.

ADELANTO SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

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

Finding 2014-7: Common Core Spending Plan (40000)

Criteria: 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.

Condition: 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.

Questioned Cost: Unknown. The District did not comply with the requirements and may lose funds unless the prescribed regulations regarding the adoption of the spending plan are followed.

Cause: The requirement to hold two meetings, one in which the plan is explained publicly and one in which the plan is adopted was overlooked.

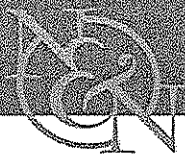
Effect: The District did not hold a meeting subsequent to the meeting delineating the plan and so did not comply.

Recommendation: We recommend that the District return the Common Core Spending Standards implementation funds or hold a separate meeting to adopt the plan as required.

District's Response: The District will get the plan approved in a separate board meeting to order to stay in compliance and not return any funds back to the state.

ADELANTO SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2014

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2013-1: OPEB Actuarial Study</i>	As promulgated by GASB Statement No. 45, all OPEB plans involving 200 or more members are required to have an actuarial study performed every two years. The District's last actuarial study was performed on November 1, 2011 and used for the fiscal years ending June 30, 2011 and 2012. This indicates that a new actuarial study would need to be completed for the fiscal year ending June 30, 2014. The District has not had an actuarial study completed.	60000	We recommend that the District contract for a new actuarial study, and create internal control procedures to ensure that the District obtains an actuarial study every two years. Furthermore, we recommend that the District obtain its subsequent actuarial study performed as of July 1 st to coincide with the District's fiscal year.	Implemented.



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, 2014, 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 10, 2014, on the financial statements of Adelanto School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: At **Columbia Middle School** we noted that two out of five receipts tested were not deposited in a timely manner. One deposit was made two weeks after collection and another was made over one month after being collected

Recommendation: We recommend at a minimum, deposits to the ASB bank account should be made weekly, though within two to three school days is preferable. This will reduce the chance of funds being lost or stolen. Additionally, money should never be left at a school, with teachers, or advisors over the weekend or holidays because many thefts occur during those times.

DISTRICT-WIDE

Observation: In our test of expenditures at the District Office, we identified 8 of 32 that had exceptions. Four capital expenditures were not added to the fixed asset ledger. One expenditure lacked a PO, two invoices were dated prior to the purchase order indicating a lack of pre-approval, and one expenditure was for a questionable use from a limousine transportation service.

Recommendation: We recommend the District pre-approve all expenditures to ensure that the expenditure is in accordance with legal and budgetary restrictions and are for purposes in the best interests of the District and its students. We further recommend that expenditures made for capital assets be recorded promptly in capital asset ledgers and or tracking systems.

DISTRICT OFFICE (continued)

Observation: During inquiry, we determined that employees in Maintenance and Operations borrow tools for personal use and have access to the maintenance yard during the weekends.

Recommendation: We recommend the District Management discontinue allowing employees to borrow District tools and secure the maintenance area during the weekends to mitigate access and potential theft of District assets.

Observation: During inquiry, we determined that the IT department is not receiving timely notification of employee terminations. It is essential that IT be notified prior to employees being terminated in order to avoid putting sensitive data at risk.

Recommendation: We recommend that the District establish a procedure in which Human Resources notifies IT prior to employees being terminated so that the necessary steps can take place to close the user accounts and access in a timely manner.

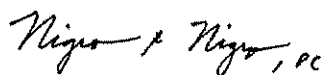
Observation: In Child Nutrition Services, we noted the same person has the ability to record financial transactions and authorize expenditures while also having custody of checks. This increases the control risk for CNS operations, as it presents greater opportunity for management override of controls and does not allow the District to prevent or detect material misstatements in a timely manner as one person can complete the entire accounting cycle without review or cooperation with other staff.

Recommendation: We recommend that the following duties are separated and performed by different staff:

- Authorization/approval of expenditures
- Recording of financial transactions
- Custody of checks and signing authority on the bank account
- Comparison of financial data through the bank reconciliation process

We further recommend that someone in Business Services play an active role in reviewing bank reconciliations and financial reports to provide the CNS with adequate oversight.

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



Murrieta, California
December 10, 2014