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VALLECITOS SCHOOL DISTRICT  
COUNTY OF SAN DIEGO  
RAINBOW, CALIFORNIA  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2015

**VALLECITOS SCHOOL DISTRICT**

**INTRODUCTORY SECTION**

**JUNE 30, 2015**

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**VALLECITOS SCHOOL DISTRICT**

**FINANCIAL SECTION**

**JUNE 30, 2015**



## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Vallecitos School District  
Rainbow, California

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## INDEPENDENT AUDITORS' REPORT

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### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Vallecitos School District, as of June 30, 2015, and the respective changes in financial position 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 5 through 9, and budgetary comparison information, schedules of the District's proportionate share of the pension liability, and schedules of District plan contributions on pages 41 through 47 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 Vallecitos School District's basic financial statements. The introductory section, individual nonmajor fund financial statements, and other supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund financial statements and the other supplementary information, except those on pages 49 through 50 and 54 through 56, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and pages 49 through 50 and 54 through 56 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**INDEPENDENT AUDITORS' REPORT**

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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015, on our consideration of the Vallecitos School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vallecitos School District's internal control over financial reporting and compliance.

*Hoarsh, Rotherham & Company*

San Diego, California

December 1, 2015



**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

As management of the Vallecitos School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

Governmental Accounting Standards Board (GASB) issued Statement No. 34 (GASB Statement No. 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and subsequently amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

**FINANCIAL HIGHLIGHTS**

- The District's ending total net position (deficit) balance was (\$638,133), due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.
- The change in net position for the year was an increase of \$251,693.
- The District had a deficiency of revenue under expenditures in the General Fund (before transfers) in the amount of (\$25,184) in the current year compared to (\$12,210) in the previous year.
- The District had \$7,567 worth of additions to capital assets compared to \$0 in the prior year.
- The District's General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of \$60,864 compared to the actual amount of deficiency of revenue under expenditures (before transfers) of (\$25,184).
- Effective June 30, 2015, the District implemented GASB Statement No. 68, which requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB No. 68 resulted in a prior period adjustment to the beginning net position of \$1,724,030, and a net pension liability at June 30, 2015 of \$1,463,904. Additional information is provided in the footnotes and Required Supplementary Information.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

**Basic financial statements (continued)**

The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by Reconciliations showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

More detailed information about the District's most significant funds – not the District as a whole is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Position*, a government-wide statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund financial statements**

The fund financial statements provide a more detailed look at the District's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the District and the governing body and outlines assessed property valuation.

*Reports on Compliance and Internal Control* encompass the independent auditor's reports showing compliance with Government Auditing Standards and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Recommendations* section notes material weaknesses in the system and recommendations.

**Statement of Net Position**

To begin our analysis, a summary of the District's Statement of Net Position (Deficit) is presented in Table 1 below for the current year and the prior year.

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

**Statement of Net Position (Continued)**

Net position may serve over time, as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by (\$638,133) as of June 30, 2015.

A large portion of the District's net position (deficit) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**TABLE 1**  
Condensed Statement of Net Position (Deficit)

	<b>2015</b>	<b>2014</b>	<b>\$ Change</b>	<b>% Change</b>
<b>ASSETS</b>				
Current and other assets	\$ 789,023	\$ 828,411	\$ (39,388)	-4.8%
Capital assets, net of depreciation	301,937	332,503	(30,566)	-9.2%
<b>TOTAL ASSETS</b>	<b>1,090,960</b>	<b>1,160,914</b>	<b>(69,954)</b>	<b>-6.0%</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>170,350</b>	<b>106,341</b>	<b>64,009</b>	<b>100.0%</b>
<b>LIABILITIES</b>				
Current liabilities	143,624	307,379	(163,755)	-53.3%
General long-term debt	1,463,904	1,849,702	(385,798)	-20.9%
<b>TOTAL LIABILITIES</b>	<b>1,607,528</b>	<b>2,157,081</b>	<b>(549,553)</b>	<b>-25.5%</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>291,915</b>	<b>-</b>	<b>291,915</b>	<b>100.0%</b>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	301,937	332,503	(30,566)	-9.2%
Restricted	223,400	167,090	56,310	33.7%
Unrestricted	(1,163,470)	(1,389,419)	225,949	-16.3%
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (638,133)</b>	<b>\$ (889,826)</b>	<b>\$ 251,693</b>	<b>-28.3%</b>

**Statement of Activities**

- The District's total revenues for the fiscal year ended June 30, 2015, excluding inter-fund transfers, increased by \$286,845.
- The District's total expenses increased by \$104,584.
- The change in net position was an increase of \$251,693.

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2015:

**TABLE 2**  
Condensed Statement of Activities

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
<b>REVENUES</b>				
Program revenues	\$ 837,475	\$ 785,883	\$ 51,592	6.6%
General revenues	1,713,781	1,478,528	235,253	15.9%
<b>TOTAL REVENUES</b>	<u>2,551,256</u>	<u>2,264,411</u>	<u>286,845</u>	<u>12.7%</u>
<b>FUNCTIONAL EXPENSES</b>				
Instruction	1,604,055	1,388,483	215,572	15.5%
Instruction-related services	143,700	217,444	(73,744)	-33.9%
Pupil services	139,996	150,087	(10,091)	-6.7%
Ancillary services	3,491	5,117	(1,626)	-31.8%
General administration	171,336	231,946	(60,610)	-26.1%
Plant services	177,313	166,307	11,006	6.6%
Other outgo	21,539	1,299	20,240	1558.1%
Depreciation (unallocated)	38,133	34,296	3,837	11.2%
<b>TOTAL EXPENSES</b>	<u>2,299,563</u>	<u>2,194,979</u>	<u>104,584</u>	<u>4.8%</u>
<b>CHANGE IN NET POSITION</b>	<u>251,693</u>	<u>69,432</u>	<u>182,261</u>	<u>262.5%</u>
<b>NET POSITION (DEFICIT) -</b>				
<b>BEGINNING, AS RESTATED*</b>	<u>(889,826)</u>	<u>(959,258)</u>	<u>69,432</u>	<u>7.2%</u>
<b>NET POSITION (DEFICIT) - ENDING</b>	<u>\$ (638,133)</u>	<u>\$ (889,826)</u>	<u>\$ 251,693</u>	<u>28.3%</u>

\*Restatement of Beginning Net Position relates to both the 2015 year and the 2014 year.

**Significant Changes in Individual Funds**

The District operates the following funds: General Fund, Child Development Fund, Cafeteria Fund, Special Reserve Fund for Other Than Capital Outlay Projects, Capital Facilities Fund, and Special Reserve Fund for Capital Outlay Projects. The operations of each fund are accounted for with a separate set of self-balancing accounts. Governmental resources allocated to individual funds are recorded for the purpose of specific activities in accordance with laws, regulations and other requirements.

**TABLE 3**  
Comparison of Fund Balances

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund	\$ 618,279	\$ 528,876	\$ 89,403	16.9%
Child Development Fund	9,743	5,535	4,208	76.0%
Cafeteria Fund	-	-	-	0.0%
Other Governmental Funds	27,477	14,540	12,937	89.0%
<b>Total Fund Balances</b>	<u>\$ 655,499</u>	<u>\$ 548,951</u>	<u>\$ 106,548</u>	<u>19.4%</u>

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

**Significant Changes in Individual Funds**

Of the \$618,279 ending General Fund Balance as of June 30, 2015, the District has set aside \$1,000 for Revolving Cash. The District also designated \$186,180 for Legally Restricted Programs. At the end of the school year, the District had \$431,099 in Unappropriated Ending General Fund Balance.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

During the 2014-2015 school year, there were \$7,567 additions to the District's capital assets and \$38,133 in depreciation expense.

**TABLE 4**  
Changes in Capital Assets

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 6,161	\$ 6,161	\$ -	0.0%
Buildings	902,421	902,421	-	0.0%
Land improvements	28,067	20,500	7,567	36.9%
Equipment	253,931	253,931	-	0.0%
Less: accumulated depreciation	(888,643)	(850,510)	(38,133)	4.5%
Total capital assets, net of depreciation	<u>\$ 301,937</u>	<u>\$ 332,503</u>	<u>\$ (30,566)</u>	-9.2%

**Long-Term Debt**

During the 2012-2013 school year, the District offered early retirement incentives in the amount of \$38,000 to be paid over the next three years. Long-term debt activity for the fiscal year 2014-2015 includes reductions in all long term debt obligations.

**TABLE 5**  
Changes in Long-Term Debt

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Net pension liability	\$ 1,463,904	\$ 1,830,371	\$ (366,467)	-20.0%
Bank of America Loan	-	122,567	(122,567)	-100.0%
JPA Workman's Compensation Fund	-	17,919	(17,919)	-100.0%
Early Retirement Incentives	10,100	20,000	(9,900)	100.0%
Compensated Absences	-	9,331	(9,331)	-100.0%
Total long-term debt	<u>\$ 1,474,004</u>	<u>\$ 2,000,188</u>	<u>\$ (526,184)</u>	-26.3%

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District's outlook for future years is tied to growth and the Local Control Funding Formula (LCFF) allocation. As with many other Districts, the District is facing the challenge of covering step and column increases in employee salaries and other fixed costs.

**CONTACTING THE DISTRICT**

Questions regarding this report should be directed to Cathy Murphy, Business Manager at 760-451-8230, or by mail at 5253 Fifth Street, Fallbrook CA 92028.

*Vallecitos School District*

**VALLECITOS SCHOOL DISTRICT  
STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash in County Treasury	\$ 542,360
Cash in revolving fund	1,000
Accounts receivable	245,663
Capital assets:	
Land	6,161
Buildings and improvements	902,421
Improvements of sites	28,067
Equipment and vehicles	253,931
Less: accumulated depreciation	(888,643)
<b>TOTAL ASSETS</b>	<b>1,090,960</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related costs	170,350
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	133,524
Noncurrent liabilities:	
Due within one year	10,100
Due in more than one year	1,463,904
<b>TOTAL LIABILITIES</b>	<b>1,607,528</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related costs	291,915
<b>NET POSITION (DEFICIT)</b>	
Net investment in capital assets	301,937
Restricted for:	
Capital projects	27,477
Legally restricted balances	186,180
Specific programs	9,743
Unrestricted	(1,163,470)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (638,133)</b>

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

**VALLECITOS SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>GOVERNMENT ACTIVITIES</b>				
Instruction	\$ 1,604,055	\$ 178,374	\$ 494,552	\$ (931,129)
Instruction-related services	143,700	-	18,382	(125,318)
Pupil services	139,996	3,430	131,146	(5,420)
Ancillary services	3,491	-	84	(3,407)
General administration	171,336	8,918	2,589	(159,829)
Plant services	177,313	-	-	(177,313)
Other outgo	21,539	-	-	(21,539)
Depreciation (unallocated)	38,133	-	-	(38,133)
<b>TOTAL GOVERNMENT ACTIVITIES</b>	<b>\$ 2,299,563</b>	<b>\$ 190,722</b>	<b>\$ 646,753</b>	<b>(1,462,088)</b>
<b>GENERAL REVENUES</b>				
				1,562,347
Revenue limit sources				51,854
State revenues				99,580
Local revenues				<u>1,713,781</u>
Total general revenues				251,693
<b>CHANGE IN NET POSITION</b>				
<b>NET POSITION (DEFICIT) - BEGINNING, AS RESTATED</b>				<u>(889,826)</u>
<b>NET POSITION (DEFICIT) - ENDING</b>				<u>\$ (638,133)</u>

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

**VALLECITOS SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General Fund	Child Development Fund	Cafeteria Fund	Other Governmental Funds		Total
				Governmental Funds	Funds	
<b>ASSETS</b>						
Cash in County Treasury	\$ 517,682	\$ 593	\$ 117	\$ 23,968	\$	\$ 542,360
Cash in revolving fund	1,000	-	-	-	-	1,000
Accounts receivable	194,856	29,026	18,272	3,509	-	245,663
Due from other funds	24,018	-	-	-	-	24,018
<b>TOTAL ASSETS</b>	<b>\$ 737,556</b>	<b>\$ 29,619</b>	<b>\$ 18,389</b>	<b>\$ 27,477</b>	<b>\$</b>	<b>\$ 813,041</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable	\$ 119,277	\$ 11,876	\$ 2,371	\$ -	\$	\$ 133,524
Due to other funds	-	8,000	16,018	-	-	24,018
Total liabilities	119,277	19,876	18,389	-	-	157,542
Fund balance:						
Nondisposable:						
Revolving fund	1,000	-	-	-	-	1,000
Restricted	186,180	9,743	-	-	-	195,923
Assigned	-	-	-	27,477	-	27,477
Unassigned/unappropriated:						
Unassigned/unappropriated amount	431,099	-	-	-	-	431,099
Total fund balance	618,279	9,743	-	27,477	-	655,499
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 737,556</b>	<b>\$ 29,619</b>	<b>\$ 18,389</b>	<b>\$ 27,477</b>	<b>\$</b>	<b>\$ 813,041</b>

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



**VALLECITOS SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2015**

Total fund balances - governmental fund balance sheet	\$	655,499
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not reported in the funds.		301,937
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.		(10,100)
Payable for net pension liabilities which are not due in the current period are no reported in the funds.		(1,463,904)
Deferred outflows relating to pension costs which are applicable to future periods are not reported in the funds.		170,350
Deferred inflows relating to pension costs which are applicable to future periods are not reported in the funds.		<u>(291,915)</u>
Net position of governmental activities - Statement of Net Position (Deficit)	\$	<u>(638,133)</u>

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

**VALLECITOS SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Child Development Fund	Cafeteria Fund	Other Governmental Funds	Total
<b>REVENUES</b>					
Revenue limit sources:					
State apportionments	\$ 1,016,391	\$ -	\$ -	\$ -	\$ 1,016,391
Education protection account	258,039	-	-	-	258,039
Local sources	287,917	-	-	-	287,917
Federal revenue	165,139	-	94,504	-	259,643
Other state revenue	131,481	75,381	6,680	-	213,542
Other local revenue	499,204	83	3,472	12,965	515,724
Total revenues	<u>2,358,171</u>	<u>75,464</u>	<u>104,656</u>	<u>12,965</u>	<u>2,551,256</u>
<b>EXPENDITURES</b>					
Instruction	1,532,799	71,256	-	-	1,604,055
Instruction - Related services	282,261	-	-	-	282,261
Pupil services	27,332	-	112,664	-	139,996
Ancillary services	3,491	-	-	-	3,491
General administration	208,486	-	-	-	208,486
Plant services	184,880	-	-	-	184,880
Other outgo	14,312	-	-	-	14,312
Debt service:					
Principal	122,567	-	-	-	122,567
Interest	7,227	-	-	-	7,227
Total expenditures	<u>2,383,355</u>	<u>71,256</u>	<u>112,664</u>	<u>-</u>	<u>2,567,275</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,184)</u>	<u>4,208</u>	<u>(8,008)</u>	<u>12,965</u>	<u>(16,019)</u>
Other financing sources (uses):					
Transfers in	28	-	8,008	-	8,036
Transfers out	(8,008)	-	-	(28)	(8,036)
Sources	122,567	-	-	-	122,567
Total other financing sources (uses)	<u>114,587</u>	<u>-</u>	<u>8,008</u>	<u>(28)</u>	<u>122,567</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>89,403</b>	<b>4,208</b>	<b>-</b>	<b>12,937</b>	<b>106,548</b>
<b>FUND BALANCE, JULY 1</b>	<b>528,876</b>	<b>5,535</b>	<b>-</b>	<b>14,540</b>	<b>548,951</b>
<b>FUND BALANCE, JUNE 30</b>	<b><u>\$ 618,279</u></b>	<b><u>\$ 9,743</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,477</u></b>	<b><u>\$ 655,499</u></b>

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

**VALLECITOS SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds	\$	106,548
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Capital outlays are not reported as expenses in the SOA.		7,567
The depreciation of capital assets used in governmental activities is not reported in the funds.		(38,133)
Revenues in the SOA not providing current financial resources are not reported as revenues for the funds.		(122,567)
Repayment of Bank of America Loan is an expenditure in the funds but is not an expense in the SOA.		122,567
The decrease of JPA Workman's Compensation Fund is an expenditure in the funds but is not reported in the SOA.		17,919
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		9,331
Payments of early retirement incentive is reported as an expenditure in the funds but is not reported in the SOA.		9,900
Pension costs are recognized when contributions are made in the funds but are recognized on the accrual basis for the SOA.		<u>138,561</u>
Change in net position of governmental activities - Statement of Activities	\$	<u><u>251,693</u></u>

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

**VALLECITOS SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY**  
**NET POSITION - FIDUCIARY FUND**  
**JUNE 30, 2015**

	Agency Fund <hr/> Student Body Fund <hr/>
<b>ASSETS:</b>	
Cash on hand and in banks	\$ 7,903
Total assets	<u>\$ 7,903</u>
<b>LIABILITIES:</b>	
Due to student groups	\$ 7,903
Total liabilities	<u>\$ 7,903</u>
<b>NET POSITION:</b>	
Total net position	<u>\$ -</u>

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

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies

1. Accounting Policies

The Vallecitos School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

2. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criterion for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, subsequently amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61), include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

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. The District does not allocate indirect expenses in the statement of activities. 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.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

3. Basis of Presentation, Basis of Accounting (Continued)

a. Basis of Presentation (Continued)

Fund Financial Statements: The Fund Financial Statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major government funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District not accounted for and reported in another fund.

The Child Development Fund is used to account separately for federal, state, and local resources to operate the child development program.

The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program.

Non-Major Governmental Funds:

Capital Projects Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. The following capital projects funds are utilized by the District:

The Capital Facilities Fund is used to account for resources received from the developer impact fees assessed under the provisions of the California Environmental Quality Act (CEQA).

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay projects.

The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide the accumulation of General Fund monies to be used at the discretion of the Board of Trustees.

In addition, the District reports the following fund types:

Fiduciary Funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements. The fiduciary fund category is agency funds.

Agency Funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The District's agency fund accounts for student body activities (ASB).

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

3. Basis of Presentation, Basis of Accounting (Continued)

b. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using 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 for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Government 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 does not consider revenues collected after its fiscal year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

4. 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.

5. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget not later than July 1. A public hearing must be conducted to receive comments prior to adoption.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

5. Budgets and Budgetary Accounting (Continued)

The District's governing board satisfied these requirements. These budgets are revised by the District's governing board and District superintendent during the fiscal year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the fiscal year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. All appropriations lapse at fiscal year end.

6. Implementation of GASB Pronouncements

Effective June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB Statement No. 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB Statement No. 71). GASB Statement No. 68 requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB Statement No. 68 resulted in a restatement to the beginning net position of \$1,724,030 and a net pension liability at June 30, 2015 of \$2,961,864. GASB Statement No. 71 relates to amounts that are deferred and amortized at the time GASB Statement No. 68 is first implemented. The implementation of GASB Statement No. 71 resulted in the deferred outflows of \$170,350 and deferred inflows of \$291,915 at June 30, 2015. Additional information is provided in the footnotes and Required Supplementary Information.

7. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury indicates the amount was less than 1% for the fiscal year ended June 30, 2015.



**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

7. Assets, Liabilities, and Equity (Continued)

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. Inventories of the General Fund are immaterial and have been omitted from these statements.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

c. 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 the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50
Improvements of sites	7-25
Equipment	5-20

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as long-term liabilities of the District.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has one item that qualifies for reporting in this category.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

7. Assets, Liabilities, and Equity (Continued)

e. Deferred Outflows/Inflows of Resources (Continued)

The pension plan related costs are the employer contributions paid during the year ended June 30, 2015 in the amount of \$170,350, which are deferred under GASB Statement No. 68.

In addition to liabilities, the statement of financial 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualifies for reporting in this category.

The pension plan related costs is the adjustment due to differences between projected and actual earnings on plan investments in the amount of \$291,915, which is amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

f. Pensions

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

g. Interfund Activity

Interfund activity results from loans, services provided reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

A. Significant Accounting Policies (Continued)

i. Fund Balance Reserves and Designations

The District has adopted GASB Statement No. 54 (GASB Statement No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial purposes.

GASB Statement No. 54 requires the fund balance amounts to be properly reported within one of the fund balances categories listed below:

- *Nonspendable*, such as fund balance associated with revolving funds, inventories, prepaids, long-term loans and notes receivable, and property held for resale.
- *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balance classification includes amounts that can be used for the specific purposes determined by a formal action of the Board of Trustees.
- *Assigned* fund balance classification are intended to be used by the entity for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned* fund balance is the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classification.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

When the District incurs an expenditure or expense for which committed, assigned, or unassigned amounts may be used, it is the District's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

j. Minimum Fund Balance Policy

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than two months of General Fund operating expenditures, or 17 percent of General Fund expenditures and other financing uses.

k. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at fiscal year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Cash and Investments**

**1. Cash in County Treasury:**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$542,360 as of June 30, 2015). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$542,902. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

**2. Cash in Banks and Revolving Fund**

Cash balances on hand and in banks (\$7,903 as of June 30, 2015) and in the revolving fund (\$1,000 as of June 30, 2015) are insured up to \$250,000 by the Federal Deposit Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

**3. Analysis of Specific Deposits and Investments**

Cash and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of Net Position:

	<u>Credit Quality Rating</u>	
Cash in county treasury	Not rated	\$ 542,360
Cash in revolving fund	Not Applicable	1,000
Fiduciary funds:		
Cash in banks	Not applicable	7,903
Total		<u>\$ 551,263</u>

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

C. Cash and Investments (Continued)

Cash and investments as of June 30, 2015, consist of the following:

Cash in county treasury	\$ 542,360
Deposits with financial institutions	<u>8,903</u>
Total	<u>\$ 551,263</u>

Investments Authorized by the District's Investment Policy

Education Code Section 41001 and the District's investment policy require operating funds to be deposited into the County Treasury and invested in accordance with the current investment policy of the San Diego County Treasurer. Education Code Section 41015 authorizes the investment of surplus moneys, not required for the immediate necessities of the District in any of the investments specified in Section 16430 or 53601 of the Government Code. Additionally, a variety of operational bank accounts are authorized, including but not limited to: Scholarship Accounts, Clearing Accounts and Revolving Cash Accounts.

The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. The District held no investments at June 30, 2015.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The district held no investment subject to interest rate risk at June 30, 2015.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District held no investments subject to credit risk at June 30, 2015.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, which is investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total District investments. The District held no investments subject to concentrations in credit risk at June 30, 2015.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institute, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. 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).

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

C. Cash and Investments (Continued)

Custodial Credit Risk (Continued)

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for investment is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Investment Accounting Policy

The District is required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earnings investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investment are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one fiscal year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the investment Company Act of 1940.

D. Accounts Receivable

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

	General Fund	Child Development Fund	Cafeteria Fund	Other Governmental Funds	Total
Federal Government:					
Federal Programs	\$ 41,408	\$ -	\$ 15,042	\$ -	\$ 56,450
State Government:					
Lottery	10,438	-	-	-	10,438
Lottery - Instructional Materials	6,808	-	-	-	6,808

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

D. Accounts Receivable (Continued)

	General Fund	Child Development Fund	Cafeteria Fund	Other Governmental Funds	Total
After School and Safety	54,537	-	-	-	54,537
Special Education	10,993	-	-	-	10,993
Other State Programs	-	29,022	-	-	29,022
Child Nutrition Program	-	-	1,064	-	1,064
Total State Government	82,776	29,022	1,064	-	112,862
Local sources	70,672	4	2,166	3,509	76,351
Total accounts receivable	<u>\$ 194,856</u>	<u>\$ 29,026</u>	<u>\$ 18,272</u>	<u>\$ 3,509</u>	<u>\$ 245,663</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

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

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Child Development Fund	\$ 8,000	Short-term loans
General Fund	Cafeteria Fund	16,018	Short-term loans
	Total	<u>\$ 24,018</u>	

All amounts due are scheduled to be repaid within one fiscal year.

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2015, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Cafeteria Fund	\$ 8,008	Cash flow purposes
Special Revenue Fund for Other Than	General Fund	28	Cash flow purposes
	Total	<u>\$ 8,036</u>	

F. Capital Assets

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

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets, not being depreciated				
Land	\$ 6,161	\$ -	\$ -	\$ 6,161
Total capital assets, not being depreciated	<u>6,161</u>	<u>-</u>	<u>-</u>	<u>6,161</u>

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

F. Capital Assets (Continued)

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets, being depreciated:				
Buildings	902,421	-	-	902,421
Land improvements	20,500	7,567	-	28,067
Equipment	253,931	-	-	253,931
Total capital assets, being depreciated	1,176,852	7,567	-	1,184,419
Less accumulated depreciation for:				
Buildings	(618,258)	(30,404)	-	(648,662)
Land improvements	(20,500)	(378)	-	(20,878)
Equipment	(211,752)	(7,351)	-	(219,103)
Total accumulated depreciation	(850,510)	(38,133)	-	(888,643)
Total capital assets, being depreciated, net	326,342	(30,566)	-	295,776
Capital assets, net of depreciation	\$ 332,503	\$ (30,566)	\$ -	\$ 301,937

G. Long-Term Note Receivable

1. Long-Term Note Receivable

Changes in the long-term note receivable for the fiscal year ended June 30, 2015, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities</u>					
RAI Online Charter School					
long-term receivable	\$ 122,567	\$ -	\$ (122,567)	\$ -	\$ -
Total Governmental Activities	\$ 122,567	\$ -	\$ (122,567)	\$ -	\$ -

2. RAI Charter School Long-Term Receivable

During fiscal year 2006-2007, the District loaned to RAI Charter School, a dependent charter school at the time, a twenty-four year loan in the amount of \$367,112, with an interest rate of 7.125% per annum. The long-term receivable was loaned to RAI by borrowing funds from Bank of America. During the 2009-2010 fiscal year, the long-term receivable was amended and RAI Charter School has agreed to pay the District, monthly payments of principal and interest totaling \$2,716 with the final balloon payment in April 2015. The loan was paid in full as of June 30, 2015.



**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2015, are as follows:

	Beginning			Ending	Amounts
<u>Governmental Activities</u>	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Net pension liability	\$ 1,830,371	\$ -	\$ (366,467)	\$ 1,463,904	\$ -
Bank of America loan	122,567	-	(122,567)	-	-
JPA Workman's					
Compensation Fund	17,919	-	(17,919)	-	-
Early retirement incentive	20,000	-	(9,900)	10,100	10,100
Compensated absences	9,331	-	(9,331)	-	-
Total Governmental Activities	<u>\$ 2,000,188</u>	<u>\$ -</u>	<u>\$ (526,184)</u>	<u>\$ 1,474,004</u>	<u>\$ 10,100</u>

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Early Retirement Incentive	Governmental	General Fund
Net Pension Liability	Governmental	General Fund

2. Bank of America Loan

On January 12, 2005, the District obtained a loan in the amount of \$380,000, secured by the property and buildings on the school site. The loan bears interest at the rate of 7.125% per annum. Repayment is monthly over 10 years, in monthly payments of principal and interest in the amount of \$2,716, with a balloon payment of the remaining principal on April 1, 2015. The loan was paid in full as of June 30, 2015.

3. JPA Workman's Compensation Fund

The District's JPA fund balance for workers' compensation was paid in full as of June 30, 2015.

4. Early Retirement Incentive

The District entered into a contract through a supplemental employee retirement plan (SERP) whereby one certificated retiree will receive \$10,000 a year for three years to retire on or before June 30, 2013. The District will continue to pay an annual premium, in the amount of \$10,000, for a total of \$30,000 to fully fund the SERP. The District entered into a contract through a supplemental employee retirement plan (SERP) whereby one classified retiree will receive \$8,000 to retire on or before June 30, 2013. The District will pay the annual premium, in the amount of \$8,000 to fully fund the SERP.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

H. Long-Term Obligations (Continued)

At June 30, 2015, the District's outstanding liability was \$10,100. Future minimum payments are as follows:

Year Ending June 30,	Contract Payment
<u>2016</u>	<u>\$ 10,100</u>
Total	<u><u>\$ 10,100</u></u>

I. Restricted Fund Balances

Restricted fund balances as of June 30, 2015, are as follows:

	General Fund	Child Development Funds
Proposition 39 - California Clean Energy Jobs Act	\$ 52,693	\$ -
Special Education	82,864	-
Other Restricted Local	50,623	-
Restricted for Child Development Fund	-	9,743
Total restricted fund balance	<u><u>\$ 186,180</u></u>	<u><u>\$ 9,743</u></u>

J. Assigned Fund Balances

Assigned fund balances as of June 30, 2015, are as follows:

Assigned for Capital Facilities Fund	\$ 27,477
Total assigned fund balance	<u><u>\$ 27,477</u></u>

K. Operating Leases

The District has entered into an operating lease for office equipment with lease terms in excess of one year. This agreement contains no purchase options. The agreement is a non-cancelable lease. Future minimum lease payments under this agreement are as follow:

Year Ending June 30,	Lease Payments
<u>2016</u>	<u>\$ 10,643</u>
2017	10,643
2018	10,643
2019	<u>10,643</u>
Total future minimum payments	<u><u>\$ 42,572</u></u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal year ended June 30, 2015, was \$10,784.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

L. Joint Ventures (Joint Powers Agreements)

The District entered into a joint powers agreement (JPA) known as and designated "San Diego County Schools Risk Management Joint Powers Authority", a self-insurance plan for workers' compensation, liability, property, damage, fire damage, or any other risk or plan authorized by law. The County Superintendent of Schools for San Diego County, California is the administrator of the JPA. The County Superintendent has created a special fund under his control to facilitate the financial transactions.

Previously, programs which provide medical, dental, and vision services to District employees were covered under the same agreement. These programs are now covered under separate agreements and are reported on separately as the San Diego County Schools Fringe Benefits Consortium (the Consortium).

The JPA and the Consortium are separate entities which are independently audited. The financial transactions of the JPA and the Consortium are not included in this report because the District has a minority voting interest and no administrative authority.

M. Employee Retirement Systems

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

1. CalSTRS

a. 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 and disability benefits 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 CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

b. Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before October 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

1. CalSTRS

b. Benefits Provided (Continued)

CalSTRS 2% at 60

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

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

c. Contributions

Active plan members are required to contribute 8.15% of their salary for fiscal year 2015 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2015 was 8.88% of annual payroll. The contribution requirements of the plan members are established by state statute. The contributions to STRS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$83,640, \$75,099, and \$78,177, respectively, and equal 100% of the required contributions for each fiscal year.

d. On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$53,814 to CalSTRS (5.679% of 2012-13 creditable compensation subject to CalSTRS).

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, was \$1,168,740 at June 30, 2015.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

1. CalSTRS (Continued)

e. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.0020%, which did not change from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$71,950. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between projected and actual earnings on plan investments	\$ -	\$ 215,850
District contribution subsequent to the measurement date	137,454	-
	\$ 137,454	\$ 215,850

\$137,454 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Deferred Inflow of Resources
2016	\$ 71,950
2017	71,950
2018	71,950
	\$ 215,850

f. Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield (Net of Expense)	7.50%
Wage Inflation	3.75%
Interest on Member Accounts	4.50%

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

1. CalSTRS (Continued)

f. Actuarial assumptions (continued)

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2006 - June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term* Expected Real Rate of Return
Global Equity	47.00%	4.50%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Inflation Sensitive	5.00%	3.20%
Fixed Income	20.00%	0.20%
Cash / Liquidity	1.00%	0.00%
Total	100.00%	

\*10-year geometric average

g. Discount rate

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

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

1. CalSTRS (Continued)

h. Sensitivity of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60 %) than the current rate:

	Discount Rate -1.00% 6.50%	Current Discount Rate 7.50%	Discount Rate +1.00% 8.50%
Plan's Net Pension Liability	\$ 2,050,237	\$ 1,168,740	\$ 432,161

i. Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

2. CalPERS

a. Plan Description

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

b. Benefits provided

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

c. Contributions

Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of 50.0% of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

2. CalPERS (Continued)

c. Contributions (continued)

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2015 was 11.771% of annual payroll. The District's contributions to CalPERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$32,896, \$31,242, and \$36,753, respectively, and equal 100% of the required contributions for each fiscal year.

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

At June 30, 2015, the District reported a liability of \$295,164 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.0026%, which did not change from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$25,355.

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 76,065
District contribution subsequent to the measurement date	32,896	-
	<u>\$ 32,896</u>	<u>\$ 76,065</u>

\$32,896 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Deferred Inflow of Resources</u>
2016	\$ 25,355
2017	25,355
2018	25,355
	<u>\$ 76,065</u>



**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

2. CalPERS (Continued)

e. Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield (Net of Expense)	7.50%
Wage Inflation	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	Assumed Asset Allocation	Long-term* Expected Real Rate of Return
Global Equity	47.00%	4.50%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Inflation Sensitive	5.00%	3.20%
Fixed Income	20.00%	0.20%
Cash / Liquidity	1.00%	0.00%
Total	100.00%	

\*10-year geometric average

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

M. Employee Retirement Systems (Continued)

2. CalPERS (Continued)

f. Discount rate

The discount rate used to measure the total pension liability was 7.50%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool.

The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS' website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

g. Sensitivity of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Discount Rate -1.00% 6.50%	Current Discount Rate 7.50%	Discount Rate +1.00% 8.50%
Plan's Net Pension Liability	\$ 517,784	\$ 295,164	\$ 109,141

h. Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

N. Commitments and Contingencies

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 grant, management believes that any required reimbursement will not be material.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

O. Restatement of Net Position

The beginning net position of Governmental Activities has been restated in order to record the District's proportionate share of net pension liability and deferred outflows of resources related to pension is in accordance with GASB Statement No. 68. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position, Beginning, as Previously Reported	\$ 834,204
Restatement	(1,724,030)
Net Position, Beginning, as Restated	\$ (889,826)

P. Subsequent Events

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December 1, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

**VALLECITOS SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION SECTION**  
**JUNE 30, 2015**

**VALLECITOS SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Revenue limit sources:				
State apportionments	\$ 1,705,471	\$ 1,041,663	\$ 1,016,391	\$ (25,272)
Education protection account	-	173,468	258,039	84,571
Local sources	-	490,340	287,917	(202,423)
Federal revenue	133,210	133,210	165,139	31,929
Other state revenue	62,598	62,598	131,481	68,883
Other local revenue	449,583	449,583	499,204	49,621
Total revenues	<u>2,350,862</u>	<u>2,350,862</u>	<u>2,358,171</u>	<u>7,309</u>
<b>Expenditures</b>				
Certificated salaries	1,047,105	1,047,105	982,845	64,260
Classified salaries	251,967	251,967	256,498	(4,531)
Employee benefits	293,007	293,007	380,780	(87,773)
Books and supplies	146,092	146,092	96,261	49,831
Services and other operating expenditures	396,693	396,693	522,864	(126,171)
Other outgo	155,134	155,134	14,313	140,821
Debt service:				
Principal	-	-	122,567	(122,567)
Interest	-	-	7,227	(7,227)
Total expenditures	<u>2,289,998</u>	<u>2,289,998</u>	<u>2,383,355</u>	<u>(93,357)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>60,864</u>	<u>60,864</u>	<u>(25,184)</u>	<u>(86,048)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	28	28
Transfers out	-	-	(8,008)	(8,008)
Sources	-	-	122,567	122,567
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>114,587</u>	<u>114,587</u>
Net change in fund balance	60,864	60,864	89,403	28,539
Fund balance, July 1	528,876	528,876	528,876	-
Fund balance, June 30	<u>\$ 589,740</u>	<u>\$ 589,740</u>	<u>\$ 618,279</u>	<u>\$ 28,539</u>

**VALLECITOS SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
CHILD DEVELOPMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other state revenue	\$ 65,244	\$ 65,244	\$ 75,381	\$ 10,137
Other local revenue	9,637	9,637	83	(9,554)
Total revenues	<u>74,881</u>	<u>74,881</u>	<u>75,464</u>	<u>583</u>
Expenditures				
Certificated salaries	5,940	5,940	45,861	(39,921)
Classified salaries	47,311	47,311	-	47,311
Employee benefits	19,727	19,727	7,887	11,840
Books and supplies	1,000	1,000	3,991	(2,991)
Services and other operating expenditures	903	903	13,517	(12,614)
Total expenditures	<u>74,881</u>	<u>74,881</u>	<u>71,256</u>	<u>3,625</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>4,208</u>	<u>(3,042)</u>
Net change in fund balance	-	-	4,208	4,208
Fund balance, July 1	5,535	5,535	5,535	-
Fund balance, June 30	<u>\$ 5,535</u>	<u>\$ 5,535</u>	<u>\$ 9,743</u>	<u>\$ 4,208</u>

**VALLECITOS SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
CAFETERIA FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Federal revenue	\$ 99,358	\$ 99,358	\$ 94,504	\$ (4,854)
Other state revenue	7,393	7,393	6,680	(713)
Other local revenue	20	20	3,472	3,452
Total revenues	<u>106,771</u>	<u>106,771</u>	<u>104,656</u>	<u>(2,115)</u>
Expenditures				
Classified salaries	26,599	26,599	15,939	10,660
Employee benefits	5,574	5,574	3,272	2,302
Books and supplies	73,192	73,192	92,473	(19,281)
Services and other operating expenditures	1,406	1,406	980	426
Total expenditures	<u>106,771</u>	<u>106,771</u>	<u>112,664</u>	<u>(5,893)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(8,008)</u>	<u>(8,008)</u>
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>8,008</u>	<u>8,008</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>8,008</u>	<u>8,008</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1	-	-	-	-
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

VALLECITOS SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY - CALSTRS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	June 30, 2015
Proportion of the net pension liability	0.00200%
Proportionate share of the net pension liability	\$ 1,168,740
Covered - employee payroll	\$ 549,720
Proportionate Share of the net pension liability as percentage of covered-employee payroll	212.61%
Plan's fiduciary net position	\$ 3,809,480
Plan fiduciary net position as a percentage of the total pension liability	76.52%

**Notes to Schedule:**

**Change in Benefit Terms:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

**Change in Assumptions:** None

- Fiscal year 2015 was the first year of implementation, therefore only one year is shown.



**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT PLAN CONTRIBUTIONS - CALSTRS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 75,099
Contributions in relation to the actuarially determined contributions	(75,099)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 549,720
Contributions as a percentage of covered employee payroll	13.66%

**Notes to Schedule:**

Valuation date: June 30, 2014

- Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

**VALLECITOS SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY - CALPERS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
Proportion of the net pension liability	0.00260%
Proportionate share of the net pension liability	\$ 295,164
Covered - employee payroll	\$ 284,180
Proportionate Share of the net pension liability as percentage of covered-employee payroll	103.87%
Plan's fiduciary net position	\$ 1,480,449
Plan fiduciary net position as a percentage of the total pension liability	83.38%

**Notes to Schedule:**

**Change in Benefit Terms:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

**Change in Assumptions:** None

- Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT PLAN CONTRIBUTIONS - CALPERS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 31,242
Contributions in relation to the actuarially determined contributions	(31,242)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 284,180
Contributions as a percentage of covered employee payroll	10.99%

**Notes to Schedule:**

Valuation date: June 30, 2014

- Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

**VALLECITOS SCHOOL DISTRICT**  
**OTHER SUPPLEMENTARY INFORMATION SECTION**  
**JUNE 30, 2015**

**VALLECITOS SCHOOL DISTRICT**  
**CAPITAL FACILITIES FUND - CAPITAL PROJECTS FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other local revenue	\$ 20	\$ 20	\$ 12,965	\$ 12,945
Total revenues	<u>20</u>	<u>20</u>	<u>12,965</u>	<u>12,945</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20</u>	<u>20</u>	<u>12,965</u>	<u>12,945</u>
Net change in fund balance	20	20	12,965	12,945
Fund balance, July 1	14,512	14,512	14,512	-
Fund balance, June 30	<u>\$ 14,532</u>	<u>\$ 14,532</u>	<u>\$ 27,477</u>	<u>\$ 12,945</u>

**VALLECITOS SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY PROJECTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Other financing sources (uses)				
Transfers out	\$ -	\$ -	\$ (28)	\$ (28)
Total other financing sources (uses)	-	-	(28)	(28)
Net change in fund balance	-	-	(28)	(28)
Fund balance, July 1	28	28	28	-
Fund balance, June 30	\$ 28	\$ 28	\$ -	\$ (28)

**VALLECITOS SCHOOL DISTRICT  
LOCAL EDUCATION AGENCY  
ORGANIZATION STRUCTURE  
JUNE 30, 2015**

The Vallecitos School District was established in 1921 and is comprised of approximately 618.6 square miles, located in San Diego County. There were no changes to the boundaries of the District during the fiscal year. The District is currently operating one elementary school.

Board of Trustees

Name	Office	Term	Term Expiration
Troy Conner	President	4 Years	December 2016
Gary Drake	Vice President	4 Years	December 2018
Michelle LaLonde	Clerk	4 Years	December 2018
Michael Darnley	Trustee	4 Years	December 2018
Robert Cheathman	Trustee	4 Years	December 2018

Administration

Name	Position
David Jones	Superintendent
Cathy Murphy	Business Manager

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

ELEMENTARY:	<u>Second Period Report</u>	<u>Annual Report</u>
Transitional Kindergarten/ Kindergarten - Grade 3	85.45	85.62
Grades 4 - 6	68.27	68.38
Grades 7 - 8	<u>33.13</u>	<u>32.87</u>
TOTAL ELEMENTARY	<u><u>186.85</u></u>	<u><u>186.87</u></u>

The District's operation is classroom based with no full-time independent study program.

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



**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Grade Level	1982-83	1982-83	1986-87	1986-87	2014-15	Number of Days Traditional Calendar	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced			
Kindergarten	36,000	35,000	36,000	35,000	45,518	180	In Compliance
Grade 1	58,960	57,322	50,400	49,000	58,548	180	In Compliance
Grade 2	58,960	57,322	50,400	49,000	58,548	180	In Compliance
Grade 3	58,960	57,322	50,400	49,000	58,548	180	In Compliance
Grade 4	58,960	57,322	54,000	52,500	58,548	180	In Compliance
Grade 5	58,960	57,322	54,000	52,500	58,548	180	In Compliance
Grade 6	58,960	57,322	54,000	52,500	58,548	180	In Compliance
Grade 7	58,960	57,322	54,000	52,500	58,548	180	In Compliance
Grade 8	58,960	57,322	54,000	52,500	58,548	180	In Compliance

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 actual minutes, as reduced by the provisions of Education Code sections 46201.2(a) and 46201.3(a), whichever is greater. This schedule is required of all districts, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>General Fund</u>	<u>(Budget) 2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues and other financial sources	<u>\$ 2,454,233</u>	<u>\$ 2,480,766</u>	<u>\$ 2,285,796</u>	<u>\$ 2,057,805</u>
Expenditures	<u>2,262,939</u>	<u>2,383,355</u>	<u>2,087,365</u>	<u>2,049,284</u>
Other uses and transfers out	<u>-</u>	<u>(8,008)</u>	<u>(6,332)</u>	<u>-</u>
Total outgo	<u>2,262,939</u>	<u>2,391,363</u>	<u>2,093,697</u>	<u>2,049,284</u>
Change in fund balance	<u>191,294</u>	<u>89,403</u>	<u>192,099</u>	<u>8,521</u>
Ending fund balance	<u>\$ 809,573</u>	<u>\$ 618,279</u>	<u>\$ 528,876</u>	<u>\$ 336,777</u>
Available Reserves	<u>\$ 701,920</u>	<u>\$ 380,833</u>	<u>\$ 380,833</u>	<u>\$ 234,349</u>
Designated for economic uncertainties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,499</u>
Unrestricted fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as a percentage of total outgo	<u>31.0%</u>	<u>15.9%</u>	<u>18.2%</u>	<u>11.4%</u>
Total long-term debt	<u>\$ 1,463,904</u>	<u>\$ 1,474,004</u>	<u>\$ 169,817</u>	<u>\$ 287,297</u>
Average daily attendance at P-2	<u>187</u>	<u>187</u>	<u>192</u>	<u>188</u>

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.

The General Fund balance has increased by \$280,502 (83.6%) over the past two years. The fiscal year 2015-2016 budget projects an increase of \$191,294 (30.9%). For a District this size, the state recommends available reserves of at least four percent of total general fund expenditures, transfers out, and other uses (total outgo).

The District has had an operating surplus over the past three years, and anticipates an operating surplus during the 2015-2016 fiscal year. Total long-term debt has increased by \$1,186,707 over the past two years.

Average daily attendance (ADA) has decreased by 1 over the past two years. No change of ADA is anticipated during the 2015-2016 fiscal year.

**VALLECITOS SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented. For the fiscal year ended June 30, 2015, the District had one fund that needed an adjustments.

	General Fund
June 30, 2015, annual financial and budget report fund balances	\$ 643,279
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstatement	(25,000)
Net adjustments and reclassifications	(25,000)
June 30, 2015, audited financial statement fund balances	\$ 618,279

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The following Charter Schools are chartered by Vallecitos School District:

<u>Charter Schools</u>	<u>Included In Audit?</u>
RAI Online Charter School [#0518]	No
Taylion San Diego Academy [#1559]	No

**VALLECITOS SCHOOL DISTRICT**  
**OTHER INDEPENDENT AUDITORS' REPORTS SECTION**  
**JUNE 30, 2015**



**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  
Vallecitos School District  
Rainbow, 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 Vallecitos School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Vallecitos School District's basic financial statements, and have issued our report thereon dated December 1, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**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**

Page 2

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Hosaka, Rotherham & Company*

San Diego, California  
December 1, 2015



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees  
Vallecitos School District  
Rainbow, California

### **Report on Compliance for Each State Program**

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Vallecitos School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's Audit Guide, *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Vallecitos 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 Vallecitos School District's compliance. In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**  
**Page 2**

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Yes
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Not Applicable
Regional Occupational Centers or Programs	
Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Not Applicable
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes

The term "Not Applicable" is used above to mean either that the Organization did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

***Opinion on State Programs***

In our opinion, Vallecitos 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 state programs for the fiscal year ended June 30, 2015.

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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Hosaka, Rotherham & Company*

San Diego, California  
 December 1, 2015

**VALLECITOS SCHOOL DISTRICT  
FINDINGS AND RECOMMENDATIONS SECTION  
JUNE 30, 2015**

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**A. Summary of Auditors' Results**

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?        Yes   N/A   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   N/A   None Reported

Type of auditors' report issued on compliance for major programs:                   N/A                  

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

*The District did not have more than \$500,000 in Federal Expenditures.*

Dollar threshold used to distinguish between type A and type B programs:                   N/A                  

Auditee qualified as low-risk auditee?        Yes   N/A   No

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**A. Summary of Auditors' Results (Continued)**

3. State Awards

Internal control over state programs:

One or more material weaknesses identified?             Yes        X   No

One or more significant deficiencies identified that  
are not considered to be material weaknesses?             Yes        X   None Reported

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

**B. Financial Statement Findings**

None

**C. Federal Award Findings and Questioned Costs**

None

**D. State Award Findings and Questioned Costs**

None

VALLECITOS SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<u>Finding 2014-01</u> <u>61000</u> <u>§ 19829.5 State Compliance - Classroom</u> <u>Teacher Salaries</u>	Implemented	N/A
<u>Recommendation</u> Per Education Code Section 41372, the District is required to comply with the current expense of education percentage requirements for expenditure for payment of salaries of classroom teachers. We recommend the District regularly plan and monitor its ongoing activities to ensure compliance.		