



**ALVORD UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

ALVORD UNIFIED SCHOOL DISTRICT

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ALVORD UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Alvord Unified School District
Riverside, 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 the Alvord Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Alvord Unified School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 18 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13 and budgetary comparison, other postemployment benefit (OPEB) funding progress, District's proportionate share of the net pension liability, and District contribution information on pages 72 through 75, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alvord Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2015, on our consideration of the Alvord Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alvord Unified School District's internal control over financial reporting and compliance.

VAORNEK, TIZAS. Day + QUP

Rancho Cucamonga, California
December 12, 2015



ALVORD UNIFIED SCHOOL DISTRICT

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This section of Alvord Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

The Primary unit of the government is the Alvord Unified School District.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's Net Position and changes in them. Net Position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its services in the following category:

Governmental Activities - This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

Total Net Position decreased 76.6 percent over the course of the year. Overall revenues were \$205 million, \$18 million less than expenses. The total cost of basic programs was \$223 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$35.3 million. Average daily attendance (ADA) in grades K-12 decreased by 83, or 0.04 percent.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

THE DISTRICT AS A WHOLE

Net Position

The District's Net Position was \$5.5 million for the fiscal year ended June 30, 2015. Of this amount, (\$167.9) million was unrestricted. Restricted Net Position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that Net Position for day-to-day operations. Our analysis below, in summary form, focuses on the Net Position (Table 1) and change in Net Position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2015	2014 as Restated
Assets		
Current and other assets	\$ 75,749,889	\$ 98,830,950
Capital assets	371,653,973	374,337,167
Total Assets	447,403,862	473,168,117
Deferred Outflows of Resources		
Current year pension contribution	11,757,667	8,678,471
Liabilities		
Current liabilities	14,119,104	30,867,989
Long-term obligations	282,990,345	273,034,500
Aggregate net pension liability	124,008,631	154,432,355
Total Liabilities	421,118,080	458,334,844
Deferred Inflows of Resources		
Difference between actual and expected rate of investment return	32,534,614	-
Net Position		
Net investment of capital assets	141,387,541	149,453,097
Restricted	32,009,931	36,597,751
Unrestricted	(167,888,637)	(162,539,104)
Total Net Position	\$ 5,508,835	\$ 23,511,744

Unrestricted Net Position decreased to (\$167.9) million, compared to (\$162.5) million, in the previous period.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2015	2014
Revenues		
Program revenues:		
Charges for services	\$ 125,925	\$ 84,524
Operating grants and contributions	35,862,312	37,327,783
Capital grants and contributions	33,899	46,623
General revenues:		
Federal and State aid not restricted	129,079,861	111,354,292
Property taxes	35,335,281	30,836,929
Other general revenues	4,573,941	3,466,235
Total Revenues	205,011,219	183,116,386
Expenses		
Instruction-related	152,135,429	137,120,153
Pupil services	24,194,829	21,109,661
Administration	8,673,681	6,242,863
Plant services	20,220,394	16,448,824
Other	17,789,795	21,955,884
Total Expenses	223,014,128	202,877,385
Change in Net Position	\$ (18,002,909)	\$ (19,760,999)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$223.0 million. The amount that our taxpayers ultimately financed for these activities through local taxes was only \$35.3 million. The District also collected \$0.1 million in charges for services from these that benefited from the programs. Other governmental agencies and organizations subsidized certain programs with grants and contributions of \$35.9 million. We paid for the remaining "public benefit" portion of our governmental activities with \$133.7 million in unrestricted State and Federal funds, and with other revenues and other entitlements.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction-related, pupil services, administration, plant services, and all other functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction-related	\$ 152,135,429	\$ 125,742,044	\$ 129,388,554	\$ 111,467,836
Pupil services	24,194,829	18,173,293	14,842,272	10,364,907
Administration	8,673,681	5,194,486	7,474,178	5,232,755
Plant services	20,220,394	7,306,978	19,672,029	16,540,167
Other	17,789,795	13,874,725	15,614,959	21,812,790
Total	\$ 223,014,128	\$ 170,291,526	\$ 186,991,992	\$ 165,418,455

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$59.2 million, which is a decrease of \$6.8 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2014	Revenues	Expenditures	June 30, 2015
General Fund	\$ 15,936,608	\$ 187,146,242	\$ 192,610,652	\$ 10,472,198
Building Fund	14,659,098	54,897	2,207,016	12,506,979
County School Facilities Fund	14,066,171	33,899	1,409,244	12,690,826
Bond Interest and Redemption Fund	8,013,475	12,304,992	11,838,356	8,480,111
Cafeteria Fund	5,079,431	10,006,999	10,962,435	4,123,995
Capital Facilities Fund	4,201,235	1,800,178	814,641	5,186,772
Special Reserve Fund for Capital Outlay Projects	1,791,604	1,984,898	586,030	3,190,472
Capital Project Fund for Blended Component Units	723,891	123,757	-	847,648
Debt Service Fund for Blended Component Units	1,532,778	170,553	-	1,703,331
Total	\$ 66,004,291	\$ 213,626,415	\$ 220,428,374	\$ 59,202,332

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The primary reasons for these increases/decreases are:

- \$5,464,410 decrease to the General Fund balance – planned expenditures to expense carryover balances for Common Core implementation.
- \$2,152,119 decrease in the Building Fund balance – the district is engaged in multiple site repair and modernization projects in accordance with the specifications of the Measures H and W bonds.
- \$1,375,345 decrease to the County School Facilities Fund balance – the district is engaged in multiple site repair and modernization projects.
- \$466,636 increase in the Bond Interest and Redemption Fund balance. This fund is relatively stable as it serves as a holding fund.
- \$955,537 decrease to the Cafeteria Fund balance – the district was required to reduce the Fund balance and made materials and capital expenditures to accomplish this.
- \$985,537 increase in the Capital Facilities Fund balance – increase in fees collected from local building projects.
- \$1,398,868 increase in the Special Reserve Fund for Capital Outlay Project Fund balance – RDA revenues deposited in this fund.
- \$123,757 increase in the Capital Project Fund for Blended Component Units Fund balance. This fund is relatively stable as it serves as a holding fund.
- \$170,553 increase in the Debt Service Fund for Blended Component Units Fund balance. This fund is relatively stable as it serves as a holding fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 17, 2015. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 72).

- 2014-2015 revenues remained stable under the LCFF. \$6.3 million in revenue increases occurred during the year as deferred revenues were posted and RDA revenues were received for capital outlay.
- Budgeted expenditures increased by \$11.6 million as carry over funds became available and position additions were made.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$371.7 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately \$2.7 million, or 0.7 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2015	2014
Land and construction in progress	\$ 37,711,054	\$ 28,467,848
Buildings and improvements	328,008,609	339,858,003
Equipment	5,934,310	6,011,316
Total	\$ 371,653,973	\$ 374,337,167

Long-Term Obligations

At the end of this year, the District had \$283 million in long-term obligations outstanding versus \$273 million last year, an increase of 3.7 percent. Those obligations consisted of:

Table 6

	Governmental Activities	
	2015	2014
General obligation bonds (net of premium)	\$ 255,979,720	\$ 253,576,235
Certificates of participation (QZAB)	2,027,061	2,027,061
Capital lease	7,666,831	685,611
Supplemental early retirement plan (SERP)	1,723,358	3,192,653
Compensated absences	870,963	647,460
Other postemployment benefits	9,292,412	8,357,480
Claims liability	5,430,000	4,548,000
Total	\$ 282,990,345	\$ 273,034,500

Net Pension Liability (NPL)

At year-end, the District had an aggregate net pension liability of \$124,008,631 as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the current fiscal year.

ALVORD UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Local Control Funding Formula income increased by 17.53 percent (\$1,411 per ADA or a total of \$25.79 million) in the Adopted Budget based on 2014-2015 P-2 ADA and 82.2 percent UPP.
2. Developer fee collections are based on approximate new housing units to be constructed.
3. Federal and State income will remain relatively flat.
4. Local income will be budgeted only on predictable sources such as leases, interest, and SELPA funding.

Expenditures are based on the following forecasts:

	<u>Enrollment</u>
Grades kindergarten through third	5,767.61
Grades four through eight	7,232.22
Grades nine through twelve	5,856.43

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Financial Officer, at Alvord Unified School District, Riverside, California, or e-mail at ami.shackelford@alvord.k12.ca.us.

ALVORD UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	\$ 65,773,905
Receivables	9,721,242
Stores inventories	254,742
Capital assets	
Land and construction in process	37,711,054
Other capital assets	465,278,664
Less: Accumulated depreciation	(131,335,745)
Total Capital Assets	<u>371,653,973</u>
Total Assets	<u><u>447,403,862</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Current year pension contribution	<u>11,757,667</u>
LIABILITIES	
Accounts payable	9,817,449
Accrued interest payable	3,520,434
Unearned revenue	781,221
Long-term obligations	
Current portion of long-term obligations other than pensions	6,142,846
Noncurrent portion of long-term obligations other than pensions	276,847,499
Total Long-Term Liabilities	<u>282,990,345</u>
Aggregate net pension liability	<u>124,008,631</u>
Total Liabilities	<u><u>421,118,080</u></u>
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan investments.	<u>32,534,614</u>
NET POSITION	
Net investment of capital assets	141,387,541
Restricted for:	
Debt service	6,663,008
Capital projects	17,877,598
Educational programs	3,083,850
Other activities	4,385,475
Unrestricted	(167,888,637)
Total Net Position	<u><u>\$ 5,508,835</u></u>

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

ALVORD UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 130,498,732	\$ 83	\$ 18,202,252	\$ 33,899	\$ (112,262,498)
Instruction-related activities:					
Supervision of instruction	9,528,486	1,026	4,105,013	-	(5,422,447)
Instructional library, media, and technology	1,970,677	-	136,308	-	(1,834,369)
School site administration	10,137,534	-	268,294	-	(9,869,240)
Pupil services:					
Home-to-school transportation	3,552,710	-	63,634	-	(3,489,076)
Food services	10,204,434	-	7,647,771	-	(2,556,663)
All other pupil services	10,437,685	-	1,641,152	-	(8,796,533)
Administration:					
Data processing	2,672,629	4,828	28,558	-	(2,639,243)
All other administration	6,001,052	54	1,166,063	-	(4,834,935)
Plant services	20,220,394	-	548,365	-	(19,672,029)
Ancillary services	1,105,364	-	17,439	-	(1,087,925)
Enterprise services	84	-	-	-	(84)
Interest on long-term obligations	15,071,164	-	-	-	(15,071,164)
Other outgo	1,613,183	119,934	2,037,463	-	544,214
Total Governmental Activities	\$ 223,014,128	\$ 125,925	\$ 35,862,312	\$ 33,899	(186,991,992)
General revenues and subventions:					
Property taxes, levied for general purposes					21,924,862
Property taxes, levied for debt service					12,289,933
Taxes levied for other specific purposes					1,120,486
Federal and State aid not restricted to specific purposes					129,079,861
Interest and investment earnings					139,611
Miscellaneous					4,434,330
					168,989,083
Change in Net Position					(18,002,909)
Net Position - Beginning, as restated					23,511,744
Net Position - Ending					\$ 5,508,835

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

ALVORD UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015**

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 20,207,014	\$ 13,217,451	\$ 4,680,309
Receivables	8,321,802	12,162	10,517
Due from other funds	16,060	-	8,000,000
Stores inventories	-	-	-
Total Assets	\$ 28,544,876	\$ 13,229,613	\$ 12,690,826
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 8,719,332	\$ 722,634	\$ -
Due to other funds	8,599,769	-	-
Unearned revenue	753,577	-	-
Total Liabilities	18,072,678	722,634	-
Fund Balances:			
Nonspendable	15,000	-	-
Restricted	3,083,850	12,506,979	12,690,826
Assigned	1,946,079	-	-
Unassigned	5,427,269	-	-
Total Fund Balances	10,472,198	12,506,979	12,690,826
Total Liabilities and Fund Balances	\$ 28,544,876	\$ 13,229,613	\$ 12,690,826

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 8,480,111	\$ 13,219,530	\$ 59,804,415
-	1,371,744	9,716,225
-	589,340	8,605,400
-	254,742	254,742
<u>\$ 8,480,111</u>	<u>\$ 15,435,356</u>	<u>\$ 78,380,782</u>

\$ -	\$ 339,434	\$ 9,781,400
-	16,060	8,615,829
-	27,644	781,221
-	383,138	19,178,450

-	257,407	272,407
8,480,111	11,604,339	48,366,105
-	3,190,472	5,136,551
-	-	5,427,269
<u>8,480,111</u>	<u>15,052,218</u>	<u>59,202,332</u>

<u>\$ 8,480,111</u>	<u>\$ 15,435,356</u>	<u>\$ 78,380,782</u>
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ALVORD UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balance - Governmental Funds	\$ 59,202,332
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 502,989,718
Accumulated depreciation is	<u>(131,335,745)</u>
Net Capital Assets	371,653,973
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	11,757,667
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(3,520,434)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	518,887
The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(32,534,614)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(124,008,631)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
General obligation bonds	224,305,233
Unamortized premium on issuance	9,621,934
Certificates of participation (QZAB)	2,027,061
Capital lease	7,666,831
Supplemental early retirement plan (SERP)	1,723,358
Compensated absences (vacation)	870,963
Other postemployment benefits (OPEB)	9,292,412
In addition, in 2011 and 2013 the District issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is:	<u>22,052,553</u>
Total Long-Term Obligations	<u>(277,560,345)</u>
Total Net Position - Governmental Activities	\$ 5,508,835

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

ALVORD UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 146,093,167	\$ -	\$ -
Federal sources	11,183,469	-	-
Other State sources	15,440,197	-	-
Other local sources	6,465,129	54,897	33,899
Total Revenues	<u>179,181,962</u>	<u>54,897</u>	<u>33,899</u>
EXPENDITURES			
Current			
Instruction	117,991,559	-	-
Instruction-related activities:			
Supervision of instruction	9,453,192	-	-
Instructional library, media, and technology	1,958,728	-	-
School site administration	10,018,977	-	-
Pupil services:			
Home-to-school transportation	2,788,843	-	-
Food services	24,890	-	-
All other pupil services	10,358,029	-	-
Administration:			
Data processing	2,606,593	-	-
All other administration	6,712,037	-	-
Plant services	17,463,922	-	-
Facility acquisition and construction	7,629,555	2,207,016	1,409,244
Ancillary services	1,096,598	-	-
Other outgo	1,613,183	-	-
Debt service			
Principal	640,335	-	-
Interest and other	325,584	-	-
Total Expenditures	<u>190,682,025</u>	<u>2,207,016</u>	<u>1,409,244</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>(11,500,063)</u>	<u>(2,152,119)</u>	<u>(1,375,345)</u>
Other Financing Sources (Uses)			
Transfers in	342,725	-	-
Other sources - capital lease acquisition	7,621,555	-	-
Transfers out	(1,928,627)	-	-
Net Financing Sources (Uses)	<u>6,035,653</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(5,464,410)</u>	<u>(2,152,119)</u>	<u>(1,375,345)</u>
Fund Balance - Beginning	<u>15,936,608</u>	<u>14,659,098</u>	<u>14,066,171</u>
Fund Balance - Ending	<u>\$ 10,472,198</u>	<u>\$ 12,506,979</u>	<u>\$ 12,690,826</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 146,093,167
-	8,347,120	19,530,589
133,801	620,803	16,194,801
12,171,191	3,189,835	21,914,951
<u>12,304,992</u>	<u>12,157,758</u>	<u>203,733,508</u>
-	-	117,991,559
-	-	9,453,192
-	-	1,958,728
-	-	10,018,977
-	-	2,788,843
-	10,048,807	10,073,697
-	-	10,358,029
-	-	2,606,593
-	599,321	7,311,358
-	107,139	17,571,061
-	1,265,114	12,510,929
-	-	1,096,598
-	-	1,613,183
3,255,000	-	3,895,335
8,583,356	-	8,908,940
<u>11,838,356</u>	<u>12,020,381</u>	<u>218,157,022</u>
<u>466,636</u>	<u>137,377</u>	<u>(14,423,514)</u>
-	1,928,627	2,271,352
-	-	7,621,555
-	(342,725)	(2,271,352)
-	<u>1,585,902</u>	<u>7,621,555</u>
466,636	1,723,279	(6,801,959)
8,013,475	13,328,939	66,004,291
<u>\$ 8,480,111</u>	<u>\$ 15,052,218</u>	<u>\$ 59,202,332</u>

ALVORD UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ (6,801,959)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation expense exceeds capital outlays in the period.

Depreciation expense	\$ (12,731,116)	
Capital outlays	<u>10,047,922</u>	
Net expense adjustment		(2,683,194)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the lease is reported in the governmental fund as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position. (7,621,555)

In the Statement of Activities, certain operating expenses - special termination benefits (supplement early retirement plans) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount actually paid). The amount paid by the District was more than amounts committed to annuities by \$1,469,295. 1,469,295

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. 968,306

In the Statement of Activities, certain operating expenses - compensated absences (vacations) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than amounts used by \$223,503. (223,503)

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

ALVORD UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2015

Contributions for postemployment benefits are recorded as an expenditure in the governmental funds when paid. However, the difference between the annual OPEB cost and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual OPEB cost by \$934,932.

\$ (934,932)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	3,255,000
Capital lease obligations	640,335

Under the modified basis of accounting used in the governmental funds, expenditure are not recognized for transactions that are normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net change for the following balance:

Amortization of debt premium	372,220
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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditures in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest on the general obligation bonds increased by \$503,739. Additionally, \$6,030,705 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds and bond anticipation notes.

(6,534,444)

An internal service fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds. The net change in the internal service fund is reported with governmental activities.

91,522

Change in Net Position of Governmental Activities	<u>\$ (18,002,909)</u>
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The accompanying notes are an integral part of these financial statements.

ALVORD UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 5,969,490
Receivables	5,017
Due from other funds	10,429
Total Assets	<u>5,984,936</u>
LIABILITIES	
Current Liabilities	
Accounts payable	36,049
Current portion of claims liability	1,129,126
Total Current Liabilities	<u>1,165,175</u>
Noncurrent Liabilities	
Noncurrent portion of claims liability and assessment	<u>4,300,874</u>
NET POSITION	
Restricted	518,887
Total Net Position	<u>\$ 518,887</u>

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

ALVORD UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 2,374,974
OPERATING EXPENSES	
Payroll costs	93,736
Facility rental	162
Other operating cost	2,208,637
Total Operating Expenses	2,302,535
Operating Income	72,439
NONOPERATING REVENUES	
Interest income	19,083
Change in Net Position	91,522
Total Net Position - Beginning	427,365
Total Net Position - Ending	\$ 518,887

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

ALVORD UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 2,383,095
Cash payments to other suppliers of goods or services	(162)
Cash payments to employees for services	(93,736)
Cash payments for insurance premiums	(1,349,079)
Net Cash Provided by Operating Activities	<u>940,118</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	19,083
Net Increase in Cash and Cash Equivalents	<u>959,201</u>
Cash and Cash Equivalents - Beginning	5,010,289
Cash and Cash Equivalents - Ending	<u>\$ 5,969,490</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 72,439
Changes in assets and liabilities:	
Increase in receivables	(866)
Decrease in due from other fund	8,121
Decrease in accrued liabilities	(21,576)
Increase in claims liability	882,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 940,118</u>

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

ALVORD UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2015

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 83,926	\$ 2,588,082
Receivables	70	19,224
Total Assets	<u>83,996</u>	<u>\$ 2,607,306</u>
LIABILITIES		
Accounts payable	-	\$ 2,294
Due to student groups	-	860,880
Due to bondholders	-	1,744,132
Total Liabilities	<u>-</u>	<u>\$ 2,607,306</u>
NET POSITION		
Restricted	<u>83,996</u>	
Total Net Position	<u>\$ 83,996</u>	

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

ALVORD UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2015

	Scholarship Trust
ADDITIONS	
Private donations	\$ 50,135
Interest	276
Total Additions	<u>50,411</u>
 DEDUCTIONS	
Scholarships awarded	<u>54,275</u>
 Change in Net Position	(3,864)
Net Position - Beginning	<u>87,860</u>
Net Position - Ending	<u><u>\$ 83,996</u></u>

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

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Alvord Unified School District was unified on July 1, 1960 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twelve elementary schools, four middle schools, three comprehensive high schools, and one continuation school.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

The Alvord Unified Schools Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund for Blended Component Units. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. The Community Facilities Districts (the CFDs) of the Alvord Unified School District's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and as an Agency Fund. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation or the CFDs.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund, being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and other sources, and expenditures and other uses of \$70,975, \$83,244, \$17,054, and \$18,139, respectively.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of principal and interest on certificates of participation.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a workers' compensation program that is accounted for in an internal service fund.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust fund accounts for scholarship activity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes for payments on non-obligatory debt related to the CFDs.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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 are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net Position should be reported as restricted when constraints placed on Net Position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Net Position restricted for other activities result from special revenue funds, and the internal service fund and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The statement of changes in fund Net Position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2015, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide Statement of Net Position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, five to 50 years; equipment, two to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of Net Position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for current year pension contributions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of Net Position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

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 California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' Fiduciary Net Position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net Position represents the difference between assets and liabilities. Net Position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position is available. The government-wide financial statements report \$32,009,931 of restricted Net Position restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are food sales. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

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

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

Property Tax

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 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

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

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning Net Position in the government wide Statement of Net Position, effectively decreasing Net Position as of July 1, 2014, by \$145,753,884. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows as this information was not available.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 65,773,905
Fiduciary funds	2,672,008
Total Deposits and Investments	<u>\$ 68,445,913</u>

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

Cash on hand and in banks	\$ 1,467,027
Cash in revolving	159,089
Investments	66,819,797
Total Deposits and Investments	<u>\$ 68,445,913</u>

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Registered State Bonds, Notes, Warrants	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
Export-Import Bank	5 years	None	None
Rural Economic Community Development Administration Bonds	5 years	None	None
U.S. Maritime Administration Certificates	5 years	None	None
Small Business Administration Certificates	5 years	None	None
U.S. Department of Housing and Urban Development Bonds	5 years	None	None
Federal Housing Administration Debentures	5 years	None	None
Federal Home Loan Mortgage Corporation Obligations	5 years	None	None
Federal Financing Bank Bonds	5 years	None	None
Federal Home Loan Banks Obligations	N/A	None	None
Federal National Mortgage Association Obligations	5 years	None	None
Resolution Funding Corporation Obligations	5 years	None	None
Fully Insured Deposits, Federal Funds and Bankers' Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	120 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Riverside County Investment Pool	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None
Investment Agreement	N/A	None	None
Pre-Funded Municipal Obligations	N/A	None	None

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Riverside County Investment Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Average Maturity in Days/ Maturity Date</u>
Riverside County Investment Pool	\$ 63,068,686	\$ 63,074,040	402
Fortis Funding, LLC Commercial Paper	1,702,211	1,729,211	12/1/2015
First American Treasury Obligation Money Market Funds	2,048,900	2,048,900	33
Total	<u>\$ 66,819,797</u>	<u>\$ 66,852,151</u>	

Credit Risk

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's investment in the Riverside County Investment Pool is rated Aaa by Moody's Investor Service. In addition, the First American Treasury Obligation Money Market Funds is also rated Aaa by Moody's Investor Service. The investment with Fortis Fund, LLC is rated Aa2 by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the District's bank balance of \$680,745 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building	County School	Non-Major	Internal	Total	Fiduciary
	Fund	Fund	Facilities	Governmental	Service	Governmental	Funds
			Fund	Funds	Fund	Activities	
Federal Government							
Categorical aid	\$ 4,181,185	\$ -	\$ -	\$ 1,267,365	\$ -	\$ 5,448,550	\$ -
State Government							
Categorical aid	320,840	-	-	78,901	-	399,741	-
Lottery	1,675,825	-	-	-	-	1,675,825	-
Special education	1,745,422	-	-	-	-	1,745,422	-
Local Government							
Interest	12,184	12,162	10,517	8,448	5,017	48,328	70
Other Local Sources	386,346	-	-	17,030	-	403,376	19,224
Total	<u>\$ 8,321,802</u>	<u>\$ 12,162</u>	<u>\$ 10,517</u>	<u>\$ 1,371,744</u>	<u>\$ 5,017</u>	<u>\$ 9,721,242</u>	<u>\$ 19,294</u>

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 28,467,848	\$ -	\$ -	\$ 28,467,848
Construction in progress	-	9,243,206	-	9,243,206
Total Capital Assets Not Being Depreciated	<u>28,467,848</u>	<u>9,243,206</u>	<u>-</u>	<u>37,711,054</u>
Capital Assets Being Depreciated:				
Land improvements	42,642,316	204,564	-	42,846,880
Buildings and improvements	405,252,818	18,799	-	405,271,617
Furniture and equipment	15,215,303	581,353	-	15,796,656
Vehicles	1,363,511	-	-	1,363,511
Total Capital Assets Being Depreciated	<u>464,473,948</u>	<u>804,716</u>	<u>-</u>	<u>465,278,664</u>
Total Capital Assets	<u>492,941,796</u>	<u>10,047,922</u>	<u>-</u>	<u>502,989,718</u>
Less Accumulated Depreciation:				
Land improvements	20,361,769	1,938,187	-	22,299,956
Buildings and improvements	87,675,362	10,134,570	-	97,809,932
Furniture and equipment	9,531,624	581,353	-	10,112,977
Vehicles	1,035,874	77,006	-	1,112,880
Total Accumulated Depreciation	<u>118,604,629</u>	<u>12,731,116</u>	<u>-</u>	<u>131,335,745</u>
Governmental Activities Capital Assets, Net	<u>\$ 374,337,167</u>	<u>\$ (2,683,194)</u>	<u>\$ -</u>	<u>\$ 371,653,973</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 11,458,004
School site administration	50,924
Home-to-school transportation	763,867
Food services	114,580
Data processing	63,656
All other administration	114,580
Plant services	165,505
Total Depreciation Expenses Governmental Activities	<u>\$ 12,731,116</u>

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2015, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 16,060	\$ 16,060
County School Facilities Fund	8,000,000	-	8,000,000
Non-Major Governmental Funds	589,340	-	589,340
Internal Service Fund	10,429	-	10,429
Total	<u>\$ 8,599,769</u>	<u>\$ 16,060</u>	<u>\$ 8,615,829</u>

A balance of \$8,000,000 due to the County School Facilities Fund from the General Fund resulted from temporary borrowing.

The balance of \$576,928 due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the General Funds resulted from transfer of redevelopment funds received.

All remaining balances resulted from the time lag between the date (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 342,725	\$ 342,725
Non-Major Governmental Funds	1,928,627	-	1,928,627
Total	<u>\$ 1,928,627</u>	<u>\$ 342,725</u>	<u>\$ 2,271,352</u>

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for amounts due back to the Child Nutrition program for current year's utility costs. \$ 48,963

The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects redevelopment funds set aside for future capital outlay projects. 1,765,214

The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for the District's debt service requirements on its outstanding certificates of participation (QZAB). 114,450

The Cafeteria Non-Major Governmental Fund transferred to the General Fund for reimbursement of payroll, indirect, and other operating costs. 342,725

Total \$ 2,271,352

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 716,007	\$ -	\$ 17,031	\$ -	\$ 733,038	\$ -
LCFF apportionment	4,663,097	-	-	-	4,663,097	-
Supplies	118,899	-	184,417	-	303,316	-
Services	2,000,066	93,151	137,986	36,049	2,267,252	-
Construction	-	629,483	-	-	629,483	-
Due to Riverside County Office of Education	1,191,895	-	-	-	1,191,895	-
Other payables	29,368	-	-	-	29,368	2,294
Total	\$ 8,719,332	\$ 722,634	\$ 339,434	\$ 36,049	\$ 9,817,449	\$ 2,294

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 591,401	\$ 2,276	\$ 593,677
State categorical aid	162,176	-	162,176
Other local	-	25,368	25,368
Total	\$ 753,577	\$ 27,644	\$ 781,221

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$3,410,000 of Tax Revenue Anticipation Notes dated June 25, 2014, through the California School Cash Reserve Program Authority. The notes matured on June 30, 2015, with an interest rate of 2.0 percent. The notes were sold to supplement cash flow. Repayment required that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due was on account in June 2015. As of June 30, 2015, the notes were paid in full.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding	Additions	Payments	Outstanding
			July 1, 2014			June 30, 2015
6/25/2014	2.000%	6/30/2015	\$ 3,410,000	\$ -	\$ 3,410,000	\$ -

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
2002 Refunding General Obligation Bonds, Series A	\$ 36,390,000	\$ -	\$ 1,740,000	\$ 34,650,000	\$ 1,835,000
Premium on issuance of debt	76,807	-	10,473	66,334	-
2007 General Obligation Bonds, Series A	55,230,000	-	895,000	54,335,000	1,045,000
Premium on issuance of debt	1,902,288	-	103,762	1,798,526	-
2007 General Obligation Bonds, Series B	72,810,859	5,781,450	-	78,592,309	-
Premium on issuance of debt	6,283,397	-	196,868	6,086,529	-
2012 General Obligation Bonds, Series A	79,151,222	249,255	620,000	78,780,477	-
Premium on issuance of debt	1,731,662	-	61,117	1,670,545	-
2002 Certificates of Participation, Series 2002 (QZAB)	2,027,061	-	-	2,027,061	-
Capital lease	685,611	7,621,555	640,335	7,666,831	1,272,041
Supplemental early retirement plan (SERP)	3,192,653	-	1,469,295	1,723,358	861,679
Compensated absences (vacation)	647,460	223,503	-	870,963	-
Other postemployment benefits (OPEB)	8,357,480	2,045,037	1,110,105	9,292,412	-
Claims liability	4,548,000	2,011,126	1,129,126	5,430,000	1,129,126
	<u>\$ 273,034,500</u>	<u>\$ 17,931,926</u>	<u>\$ 7,976,081</u>	<u>\$ 282,990,345</u>	<u>\$ 6,142,846</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made by the General Fund. The General Fund also makes payments for the capital leases, and the Supplemental Early Retirement Plan (SERP). The accrued vacation was paid by the fund for which the employee worked. Other postemployment benefits are generally paid by the General Fund. The claims liability will be paid by the Internal Service Fund.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2002 Refunding General Obligation Bonds, Series A

On November 5, 2002, the District issued the 2002 Refunding General Obligation Bonds, Series A in the amount of \$52,810,000. The bonds have a final maturity to occur August 1, 2030 with interest rates ranging from 2.30-5.90 percent. Proceeds from the sale of bonds were used to provide advance refunding of the District's \$12,000,000 1997 General Obligation Bonds, Series A, \$22,000,000 1997 General Obligation Bonds, Series B, \$14,000,000 General Obligation Bonds, Series C, and \$9,000,000 1997 General Obligation Bonds, Series D. As of June 30, 2015, the principal balance of \$34,650,000 remained outstanding and unamortized premium on issuance amounted to \$66,334.

2007 General Obligation Bonds, Series A

On May 1, 2008, the District issued the 2007 General Obligation Bonds, Series A in the amount of \$60,000,000. The Series A represents the first of the authorized bonds not to exceed \$196,000,000 to be issued under the measure as approved by voters. The bonds have a final maturity to occur August 1, 2032 with interest rates ranging from 3.50-5.00 percent. Proceeds from the sale of bonds were used to finance the acquisition, construction, renovation and repair of certain school facilities. As of June 30, 2015, the principal balance of \$54,335,000 remained outstanding. Unamortized premium on issuance was \$1,798,526.

2007 General Obligation Bonds, Series B

On June 15, 2011, the District issued the 2007 General Obligation Bonds, Series B in the amount of \$56,941,560. The Series B represents the second series of the authorized bonds not to exceed \$196,000,000 to be issued under the measure as approved by the voters. The Series B bonds were issued as capital appreciation bonds and convertible capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$210,049,593 and convertible capital appreciation bonds accreting to \$42,623,847. The Series B bonds will have an aggregate principal debt service balance of \$309,615,000.

The bonds have a final maturity to occur on August 1, 2046 with interest rates ranging from 3.00 to 5.10 percent. Proceeds from the sale of bonds were used for defeasance of the outstanding principal balance on the \$60,000,000 2009 General Obligation Bond Anticipation Notes. At June 30, 2015, the principal outstanding (including accretion) was \$78,592,309. Unamortized premium received on issuance \$6,086,529.

2012 General Obligation Bonds, Series A

On November 21, 2013, the District issued the 2012 General Obligation Bonds, Series A, in the amount of \$78,998,673. The Series A represents the first series of the reauthorized bonds not to exceed \$79,000,000 to be issued under the measure as approved by the voters. The Series A bonds were issued as current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$3,596,327 and an aggregate principal debt service balance of \$82,595,000. The bonds have a final maturity to occur on August 1, 2042 with interest rates ranging from 5.00 to 5.25 percent. Proceeds from the sale of the bonds were used for defeasance of the outstanding principal balance on the \$51,999,394 2010 General Obligation Bond Anticipation Notes and to finance the renovation, acquisition, and construction of District buildings and facilities. At June 30, 2015, the principal outstanding (including accretion) was \$78,780,477. Unamortized premium received on issuance was \$1,670,545.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2014	Accreted	Redeemed	Outstanding June 30, 2015
11/5/2002	8/1/2030	2.30-5.90%	\$ 52,810,000	\$ 36,390,000	\$ -	\$ 1,740,000	\$ 34,650,000
5/1/2008	8/1/2032	3.50-5.00%	60,000,000	55,230,000	-	895,000	54,335,000
6/15/2011	8/1/2046	3.00-5.10%	56,941,560	72,810,859	5,781,450	-	78,592,309
11/21/2013	8/1/2042	5.00-5.25%	78,998,673	79,151,222	249,255	620,000	78,780,477
				<u>\$ 243,582,081</u>	<u>\$ 6,030,705</u>	<u>\$ 3,255,000</u>	<u>\$ 246,357,786</u>

Debt Service Requirements to Maturity

The bonds mature through August 1, 2046 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Interest to Maturity	Total
2016	\$ 2,880,000	\$ -	\$ 8,428,143	\$ 11,308,143
2017	3,526,099	18,901	8,446,908	11,991,908
2018	3,825,395	9,605	8,438,083	12,273,083
2019	4,525,564	29,436	8,211,140	12,766,140
2020	5,496,748	58,252	7,937,843	13,492,843
2021-2025	37,644,046	7,485,954	34,461,815	79,591,815
2026-2030	40,196,703	10,988,297	41,786,905	92,971,905
2031-2035	36,140,439	10,189,561	38,864,694	85,194,694
2036-2040	39,733,606	46,401,394	32,002,863	118,137,863
2041-2045	52,829,848	135,325,152	23,800,435	211,955,435
2046-2047	19,559,338	23,710,662	3,253,845	46,523,845
Total	<u>\$ 246,357,786</u>	<u>\$ 234,217,214</u>	<u>\$ 215,632,674</u>	<u>\$ 696,207,674</u>

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

2002 Certificates of Participation, Series 2002 (Qualified Academy Zone Bonds)

On December 3, 2002, the District, pursuant to a sublease agreement with the Alvord Unified School District Financing Corporation (the Corporation), issued the \$2,027,061 Certificates of Participation, Series 2002 (Qualified Academy Zone Bonds) (QZAB). The District has been granted authorization from the State Superintendent of Public Instruction to issue securities in an aggregate principal amount not to exceed \$5,728,000 in accordance with the qualified zone academy bonds tax credit program found in Section 1397E of the Internal Revenue Code of 1986 and State regulations, to finance certain projects at qualified zone academies within the District. The District and the Corporation, in order to facilitate the financing of projects qualified under the QZAB Program, entered into a lease arrangement by which the District will lease to the Corporation those certain parcels of real property located within the District and pursuant to a sublease, the Corporation will sublease the property to the District, with the District required to pay base rental to the Corporation. The annual base rental payment of \$114,450 to begin December 1, 2003, will be deposited with Bank of America into an interest generating investment to produce sufficient income to repay the \$2,027,061 certificates upon maturity on December 3, 2017. At June 30, 2015, the principal balance outstanding was \$2,027,061.

Capital Leases

The District has entered into agreements to lease various equipments. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on these lease agreements with options to purchase is summarized below:

	Equipment	Energy Efficiency Project	Total
Balance, July 1, 2014	\$ 768,250	\$ -	\$ 768,250
Additions	-	9,003,978	9,003,978
Payments	(192,071)	(700,456)	(892,527)
Balance, June, 30, 2015	<u>\$ 576,179</u>	<u>\$ 8,303,522</u>	<u>\$ 8,879,701</u>

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2016	\$ 1,477,742
2017	1,373,617
2018	1,403,706
2019	792,565
2020	346,393
2021-2025	1,684,239
2026-2030	1,801,439
Total	8,879,701
Less: Amount Representing Interest	(1,212,870)
Present Value of Minimum Lease Payments	\$ 7,666,831

Supplemental Early Retirement Plan (SERP)

During 2008, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 15 employees who retired during 2007-2008 school year, were purchased from United Omaha Life Insurance Company.

During 2009, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 59 employees who retired during 2008-2009 school year, were purchased from United Omaha Life Insurance Company.

During 2010, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 41 employees who retired during 2009-2010 school year, were purchased from United Omaha Life Insurance Company.

During 2012, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 79 employees who retired during 2011-2012 school year, were purchased from United Omaha Life Insurance Company.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

As of June 30, 2015, the total balance of all outstanding obligations for the supplemental early retirement plans was \$1,723,358. Future payments are as follows:

Year Ending June 30,	
2016	\$ 861,679
2017	861,679
Total	<u>\$ 1,723,358</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$870,963.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$2,226,358, and contributions made by the District during the year were \$1,110,105. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$396,980 and (\$578,301), respectively, which resulted in an increase to the net OPEB obligation of \$934,932. As of June 30, 2015, the net OPEB obligation was \$9,292,412. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2015, amounted to \$5,430,000, using a discount factor of one and half percent.

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$7,665,000 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 2,665	\$ 17,665
Stores inventories	-	-	-	-	254,742	254,742
Total Nonspendable	15,000	-	-	-	257,407	272,407
Restricted						
Educational programs	3,083,850	-	-	-	-	3,083,850
Child nutrition program	-	-	-	-	3,866,588	3,866,588
Capital projects	-	12,506,979	12,690,826	-	6,034,420	31,232,225
Debt services	-	-	-	8,480,111	1,703,331	10,183,442
Total Restricted	3,083,850	12,506,979	12,690,826	8,480,111	11,604,339	48,366,105
Assigned						
Adult education program	785	-	-	-	-	785
Deferred maintenance program	82,460	-	-	-	-	82,460
Other assignments	1,862,834	-	-	-	-	1,862,834
Future projects	-	-	-	-	3,190,472	3,190,472
Total Assigned	1,946,079	-	-	-	3,190,472	5,136,551
Unassigned						
Reserve for economic uncertainties	5,427,269	-	-	-	-	5,427,269
Total	\$ 10,472,198	\$ 12,506,979	\$ 12,690,826	\$ 8,480,111	\$ 15,052,218	\$ 59,202,332

NOTE 12 – EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2015, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual*	Excess
General Fund	\$ 182,879,046	\$ 192,610,652	\$ 9,731,606

* Includes on behalf payments of \$4,098,278.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Plan is a single-employer defined benefit healthcare plan administered by the Alvord Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 142 retirees and beneficiaries currently receiving benefits and 1,295 active employees eligible for these benefits in a future period.

Contribution Information

The contribution requirements for Plan members and the District are established and may be amended by the District and the Alvord Teachers Associations and CSEA. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-2015, the District contributed \$1,110,105 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 2,226,358
Interest on net OPEB obligation	396,980
Adjustment to annual required contribution	(578,301)
Annual OPEB cost (expense)	<u>2,045,037</u>
Contributions made	<u>(1,110,105)</u>
Increase in net OPEB obligation	934,932
Net OPEB obligation, beginning of year	<u>8,357,480</u>
Net OPEB obligation, end of year	<u><u>\$ 9,292,412</u></u>

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 2,393,609	\$ 1,427,269	59.63%	\$ 7,534,691
2014	2,062,888	1,240,099	60.11%	8,357,480
2015	2,045,037	1,110,105	54.28%	9,292,412

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
April 1, 2014	\$ -	\$ 18,727,840	\$ 18,727,840	0.00%	\$ 100,651,591	18.61%

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

Actuarial Methods and Assumptions

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

In the April 1, 2014, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of 4.5 percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2015, was 23 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

NOTE 14 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2015, the District contracted with Southern California Regional Liability Excess Fund (SoCal ReLiEF) risk management pool for property and liability insurance coverage. The District's member retention limit was \$50,000 and \$5,000, respective for liability and property claims.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Workers' Compensation

For the fiscal year of 2014-2015, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. The District's self-insured retention limit for the 2014-2015 fiscal year was \$750,000. Excess liability coverage for workers' compensation claims is provided through Star Insurance Company, a commercial insurance carrier.

Employee Medical Benefits

The District has contracted with Self Insured Schools of California (SISC) and Riverside County Employer/Employee Partnership for Benefits (REEP) to provide employee health benefits. Medical benefits are provided by United Health Care, Anthem Blue Cross, Blue Shield of California, and Kaiser. Dental benefits are provided by Delta Dental and MetLife Dental. Vision benefits are provided by Medical Eye Service and term life insurance is provided by Prudential Life and Mutual of Omaha Life.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2014 to June 30, 2015:

	Workers' Compensation
Liability Balance, July 1, 2013	\$ 4,545,000
Claims and changes in estimates	1,203,224
Claims payments	(1,200,224)
Liability Balance, June 30, 2014	4,548,000
Claims and changes in estimates	2,011,126
Claims payments	(1,129,126)
Liability Balance, June 30, 2015	\$ 5,430,000
Assets available to pay claims at June 30, 2015	\$ 5,984,936

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 103,490,342	\$ 8,354,960	\$ 25,484,300	\$ 8,969,221
CalPERS	20,518,289	3,402,707	7,050,314	1,820,139
Total	\$ 124,008,631	\$ 11,757,667	\$ 32,534,614	\$ 10,789,360

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$8,354,960.

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	103,490,342
State's proportionate share of the net pension liability associated with the District		<u>62,491,937</u>
Total	\$	<u><u>165,982,279</u></u>

The net pension liability was measured as of 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 and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.1771 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$8,969,221, and revenue and pension expense of \$1,296,794 for support provided by the State. 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 Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 8,354,960	\$ -
Difference between projected and actual earnings on pension plan investments	-	<u>25,484,300</u>
Total	<u>\$ 8,354,960</u>	<u>\$ 25,484,300</u>

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The deferred outflow 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. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 6,371,075
2017	6,371,075
2018	6,371,075
2019	6,371,075
Total	<u>\$ 25,484,300</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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.

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation 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 ten-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%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's Fiduciary Net Position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 161,314,377
Current discount rate (7.60%)	103,490,342
1% increase (8.60%)	55,275,605

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$3,402,707.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$20,518,289. The net pension liability was measured as of 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, 2015, the District's proportion was 0.1807 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,820,139. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,402,707	\$ -
Difference between projected and actual earnings on pension plan investments	-	7,050,314
Total	<u>\$ 3,402,707</u>	<u>\$ 7,050,314</u>

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The deferred outflow 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. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 1,762,578
2017	1,762,578
2018	1,762,578
2019	1,762,580
Total	<u>\$ 7,050,314</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

ALVORD UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 35,993,763
Current discount rate (7.50%)	20,518,289
1% increase (8.50%)	7,586,971

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,098,278 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Construction Commitments

As of June 30, 2015, the district had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Modernization at various sites	\$ 21,922,956	12/01/17

ALVORD UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF), Self Insured Schools of California (SISC), Riverside County Employer/Employee Partnership for Benefits (REEP) public entity risk pools. The District pays an annual premium to SoCal ReLiEF for property and liability coverage. Payments for health benefits are paid to SISC and REEP. The relationship between the District and the pools is such that it is not a component unit of the District for financial reporting purposes.

During the year ended June 30, 2015, the District made payments of \$565,039, \$17,520,898, and \$1,629,097 to SoCal ReLiEF, SISC, and REEP for the services and coverage noted.

NOTE 18 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 169,265,628
Adoption of GASB Statement No. 68	
Inclusion of net pension liability	(154,432,355)
Inclusion of deferred outflows of resources	8,678,471
Net Position - Beginning as Restated	<u><u>\$ 23,511,744</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

ALVORD UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 145,116,122	\$ 146,353,457	\$ 146,093,167	\$ (260,290)
Federal sources	10,751,529	12,490,776	11,183,469	(1,307,307)
Other State sources	8,848,855	10,793,944	15,440,197	4,646,253
Other local sources	4,488,852	5,931,673	6,465,129	533,456
Total Revenues ¹	<u>169,205,358</u>	<u>175,569,850</u>	<u>179,181,962</u>	<u>3,612,112</u>
EXPENDITURES				
Current				
Certificated salaries	92,153,244	94,390,581	94,629,134	(238,553)
Classified salaries	21,395,946	20,765,613	20,956,234	(190,621)
Employee benefits	34,984,800	36,580,811	40,194,369	(3,613,558)
Books and supplies	5,110,353	8,167,491	5,798,454	2,369,037
Services and operating expenditures	15,796,132	19,644,315	19,610,973	33,342
Capital outlay	-	34,199	7,654,149	(7,619,950)
Other outgo	712,441	1,002,504	872,793	129,711
Debt service - principal	640,335	640,335	640,335	-
Debt service - interest	325,584	325,584	325,584	-
Total Expenditures ¹	<u>171,118,835</u>	<u>181,551,433</u>	<u>190,682,025</u>	<u>(9,130,592)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,913,477)</u>	<u>(5,981,583)</u>	<u>(11,500,063)</u>	<u>(5,518,480)</u>
Other Financing Uses				
Transfers in	-	-	342,725	342,725
Other sources - capital leases	-	-	7,621,555	7,621,555
Transfers out	(139,327)	(1,327,613)	(1,928,627)	(601,014)
Net Financing Sources (Uses)	<u>(139,327)</u>	<u>(1,327,613)</u>	<u>6,035,653</u>	<u>7,363,266</u>
BALANCES	<u>(2,052,804)</u>	<u>(7,309,196)</u>	<u>(5,464,410)</u>	<u>1,844,786</u>
Fund Balance - Beginning	<u>15,936,608</u>	<u>15,936,608</u>	<u>15,936,608</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 13,883,804</u>	<u>\$ 8,627,412</u>	<u>\$ 10,472,198</u>	<u>\$ 1,844,786</u>

¹ On behalf payments of \$4,098,278 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 11, Adult Education Fund/Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures however are not included in the original and final General Fund budgets.

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2008	\$ -	\$ 19,718,611	\$ 19,718,611	0.00%	\$ 92,173,000	21.39%
July 1, 2010	-	21,859,477	21,859,477	0.00%	84,262,000	25.94%
April 1, 2014	-	18,727,840	18,727,840	0.00%	100,651,591	18.61%

ALVORD UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.1771%</u>
District's proportionate share of the net pension liability	\$ 103,490,342
State's proportionate share of the net pension liability associated with the District	<u>62,491,937</u>
Total	<u><u>\$ 165,982,279</u></u>
District's covered - employee payroll	<u>\$ 81,588,014</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>126.85%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
CalPERS	
District's proportion of the net pension liability	<u>0.1807%</u>
District's proportionate share of the net pension liability	<u>\$ 20,518,289</u>
District's covered - employee payroll	<u>\$ 19,063,577</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>107.63%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

Note: In the future, as data become available, ten years of information will be presented.

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 8,354,960
Contributions in relation to the contractually required contribution	<u>(8,354,960)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 94,087,387</u>
Contributions as a percentage of covered - employee payroll	<u>8.88%</u>
 CalPERS	
Contractually required contribution	\$ 3,402,707
Contributions in relation to the contractually required contribution	<u>(3,402,707)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 28,907,544</u>
Contributions as a percentage of covered - employee payroll	<u>11.77%</u>

Note: In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
WeFit Program	84.215F	[1]	\$ 329,353
Passed through California Department of Education (CDE)			
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career Technical Education			
Secondary Education	84.048	13924	196,935
No Child Left Behind Act (NCLB)			
Title I, Part A - Basic Grants, Low Income and Neglected	84.010	13797	5,728,529
Title I, Part G - Advance Placement Program	84.330	14831	61,900
Title II, Part A - Improving Teacher Quality	84.367	14341	158,226
English Language Acquisition Grants			
Title III, Part A - Limited English Proficiency	84.365	14346	1,164,881
Title III - Immigrant Education Program	84.365	15146	523
Subtotal English Language Acquisition Grants			<u>1,165,404</u>
Passed through Riverside County SELPA			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Preschool Grants	84.173	13430	42,040
Local Assistance	84.027	13379	3,014,860
Preschool Local Entitlement	84.027A	13682	102,737
Private School ISPs	84.027	10115	8,066
Mental Health Allocation Plan, Part B	84.027	14468	125,038
Preschool Staff Development	84.173A	13431	448
Subtotal Special Education (IDEA) Cluster			<u>3,293,189</u>
Total U.S. Department of Education			<u>10,933,536</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	776,544
Total U.S. Department of Health and Human Services			<u>776,544</u>

[1] Direct award.

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015, Continued**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
Especially Needy Breakfast Program	10.553	13526	\$ 1,262,157
Basic School Breakfast Program	10.553	13390	19,213
Meal Supplements - Snacks	10.555	13755	244,619
National School Lunch Program	10.555	13524	6,088,857
Commodities	10.555	13524	299,264
Summer Food Service Program Operations	10.559	13004	289,854
Summer Food Service Program Administration	10.559	13006	29,888
Subtotal Child Nutrition Cluster			8,233,852
Child and Adult Care Food Program	10.558	13393	113,266
Total U.S. Department of Agriculture			8,347,118
Total Federal Programs			\$ 20,057,198

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

ORGANIZATION

The Alvord Unified School District was unified on July 1, 1960 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twelve elementary schools, four middle schools, three comprehensive high schools, and one continuation school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ben Johnson II	President	2015
Carolyn M. Wilson	Vice President	2015
Art Kaspereen Jr.	Clerk	2017
Julie Moreno	Member	2017
Robert Schwandt	Member	2017

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Sid Salazar	Superintendent
Virginia Eves	Assistant Superintendent, Instructional Support Services
Ami Shackelford	Chief Financial Officer
Monalisa Hanson	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period	Annual
	Report 79DDE278	Report EFB2518B
Regular ADA		
Transitional kindergarten through third	5,726.51	5,728.81
Fourth through sixth	4,273.72	4,267.87
Seventh and eighth	2,901.46	2,895.61
Ninth through twelfth	5,634.22	5,597.09
Total Regular ADA	<u>18,535.91</u>	<u>18,489.38</u>
Extended Year Special Education		
Seventh and eighth	4.50	4.50
Ninth through twelfth	2.88	2.88
Total Extended Year Special Education	<u>7.38</u>	<u>7.38</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.01	1.78
Fourth through sixth	4.43	4.87
Seventh and eighth	4.39	5.25
Ninth through twelfth	23.52	24.51
Total Special Education, Nonpublic, Nonsectarian Schools	<u>34.35</u>	<u>36.41</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.29	0.29
Fourth through sixth	0.41	0.41
Seventh and eighth	0.11	0.11
Ninth through twelfth	1.49	1.49
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.30</u>	<u>2.30</u>
Total ADA	<u><u>18,579.94</u></u>	<u><u>18,535.47</u></u>

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	38,700	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			54,180	180	-	Complied
Grade 2			54,180	180	-	Complied
Grade 3			54,180	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			56,250	180	-	Complied
Grade 5			56,250	180	-	Complied
Grade 6			61,920	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			61,920	180	-	Complied
Grade 8			61,920	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			65,400	180	-	Complied
Grade 10			65,400	180	-	Complied
Grade 11			65,400	180	-	Complied
Grade 12			65,400	180	-	Complied

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Summarized below are the fund balance/Net Position reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>Cafeteria Fund</u>
FUND BALANCE	
Balance, June 30, 2015, Unaudited Actuals	\$ 2,764,887
Increase in:	
Accounts receivable	1,346,266
Unearned revenues	(25,368)
Decrease in:	
Accounts payable	38,210
Balance, June 30, 2015, Audited Financial Statements	<u>\$ 4,123,995</u>
	<u>Internal Service Fund</u>
NET POSITION	
Balance, June 30, 2015, Unaudited Actuals	\$ 468,316
Increase in:	
Revolving cash	50,571
Balance, June 30, 2015, Audited Financial Statements	<u>\$ 518,887</u>

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	(Budget) 2016 ¹	2015	2014	2013
GENERAL FUND⁴				
Revenues	\$ 207,294,101	\$ 179,181,447	\$ 160,724,292	\$ 147,079,893
Other sources and transfers in	-	7,981,849	-	43,342
Total Revenues and Other Sources	207,294,101	187,163,296	160,724,292	147,123,235
Expenditures	203,401,902	190,657,719	162,417,521	143,864,696
Other uses and transfers out	1,469,869	1,971,072	210,910	5,101,582
Total Expenditures and Other Uses	204,871,771	192,628,791	162,628,431	148,966,278
INCREASE (DECREASE) IN FUND BALANCE	\$ 2,422,330	\$ (5,465,495)	\$ (1,904,139)	\$ (1,843,043)
ENDING FUND BALANCE	\$ 12,811,284	\$ 10,388,954	\$ 15,854,449	\$ 17,758,588
AVAILABLE RESERVES²	\$ 6,146,154	\$ 5,427,269	\$ 4,756,546	\$ 4,356,420
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	3.00%	3.00%	3.00%	3.00%
LONG-TERM OBLIGATIONS	NA	\$ 282,990,345	\$ 273,034,500	\$ 252,991,062
K-12 AVERAGE DAILY ATTENDANCE AT P-2	18,453	18,580	18,663	18,670

The General Fund balance has decreased by \$7,369,634 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$2,422,330 (23.3 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in all of the past three years, but anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by \$29,999,283 over the past two years.

Average daily attendance has decreased by 90 over the past two years. An additional decline of 127 ADA is anticipated during fiscal year 2015-2016.

¹ Budget 2016 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$4,098,278, \$4,076,899, and \$3,800,704, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015, 2014, and 2013.

⁴ General Fund amounts do not include activity related to the consolidation of Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015**

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 2,800,790	\$ 5,238,846	\$ 2,628,915
Receivables	1,366,172	4,075	1,497
Due from other funds	12,412	-	576,928
Stores inventories	254,742	-	-
Total Assets	\$ 4,434,116	\$ 5,242,921	\$ 3,207,340
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 266,417	\$ 56,149	\$ 16,868
Due to other funds	16,060	-	-
Unearned revenue	27,644	-	-
Total Liabilities	310,121	56,149	16,868
Fund Balances:			
Nonspendable	257,407	-	-
Restricted	3,866,588	5,186,772	-
Assigned	-	-	3,190,472
Total Fund Balances	4,123,995	5,186,772	3,190,472
Total Liabilities and Fund Balances	\$ 4,434,116	\$ 5,242,921	\$ 3,207,340

See accompanying note to supplementary information.

Capital Project Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Non Major Governmental Funds
\$ 847,648	\$ 1,703,331	\$ 13,219,530
-	-	1,371,744
-	-	589,340
-	-	254,742
<u>\$ 847,648</u>	<u>\$ 1,703,331</u>	<u>\$ 15,435,356</u>
\$ -	\$ -	\$ 339,434
-	-	16,060
-	-	27,644
<u>-</u>	<u>-</u>	<u>383,138</u>
-	-	257,407
847,648	1,703,331	11,604,339
-	-	3,190,472
<u>847,648</u>	<u>1,703,331</u>	<u>15,052,218</u>
<u>\$ 847,648</u>	<u>\$ 1,703,331</u>	<u>\$ 15,435,356</u>

ALVORD UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES			
Federal sources	\$ 8,347,120	\$ -	\$ -
Other State sources	620,803	-	-
Other local sources	990,113	1,800,178	219,684
Total Revenues	9,958,036	1,800,178	219,684
EXPENDITURES			
Current			
Pupil services:			
Food services	10,048,807	-	-
Administration:			
All other administration	474,925	124,396	-
Plant services	95,978	-	11,161
Facility acquisition and construction	-	690,245	574,869
Total Expenditures	10,619,710	814,641	586,030
Excess (Deficiency) of Revenues Over Expenditures	(661,674)	985,537	(366,346)
Other Financing Sources			
Transfers in	48,963	-	1,765,214
Transfers out	(342,725)	-	-
Net Financing Sources	(293,762)	-	1,765,214
NET CHANGE IN FUND BALANCES	(955,436)	985,537	1,398,868
Fund Balance - Beginning	5,079,431	4,201,235	1,791,604
Fund Balance - Ending	\$ 4,123,995	\$ 5,186,772	\$ 3,190,472

See accompanying note to supplementary information.

Capital Project Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Non Major Governmental Funds
\$ -	\$ -	\$ 8,347,120
-	-	620,803
123,757	56,103	3,189,835
<u>123,757</u>	<u>56,103</u>	<u>12,157,758</u>
-	-	10,048,807
-	-	599,321
-	-	107,139
-	-	1,265,114
<u>-</u>	<u>-</u>	<u>12,020,381</u>
123,757	56,103	137,377
-	114,450	1,928,627
-	-	(342,725)
-	114,450	1,585,902
123,757	170,553	1,723,279
723,891	1,532,778	13,328,939
<u>\$ 847,648</u>	<u>\$ 1,703,331</u>	<u>\$ 15,052,218</u>

ALVORD UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Actual Results for the Years					
	2014-2015		2013-2014		2012-2013	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 11,183,469	6.3	\$ 11,335,263	7.1	\$ 11,464,198	7.8
State and local revenue included in Local Control Funding Formula	146,093,167	81.5	126,368,579	78.6	99,314,513	67.5
Other State revenue	15,440,197	8.6	16,989,479	10.6	29,364,883	20.0
Other local revenue	6,464,614	3.6	6,030,971	3.7	6,936,299	4.7
Total Revenues	<u>179,181,447</u>	<u>100.0</u>	<u>160,724,292</u>	<u>100.0</u>	<u>147,079,893</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	94,555,149	52.8	82,769,621	51.5	73,213,034	49.8
Classified salaries	20,922,158	11.7	18,184,910	11.3	15,943,904	10.8
Employee benefits	40,164,022	22.4	35,818,738	22.3	34,239,523	23.3
Total Salaries and Benefits	155,641,329	86.9	136,773,269	85.1	123,396,461	83.9
Books and supplies	5,798,454	3.2	6,073,470	3.8	5,146,253	3.5
Contracts and operating expenses	19,610,966	10.9	17,733,686	11.0	15,452,758	10.5
Capital outlay	7,654,149	4.3	22,577	0.0	53,473	0.0
Other outgo	1,952,821	1.1	1,814,519	1.1	(184,249)	(0.1)
Total Expenditures	<u>190,657,719</u>	<u>106.4</u>	<u>162,417,521</u>	<u>101.0</u>	<u>143,864,696</u>	<u>97.8</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(11,476,272)</u>	<u>(6.4)</u>	<u>(1,693,229)</u>	<u>(1.0)</u>	<u>3,215,197</u>	<u>2.2</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	360,294	0.2	-	0.0	43,342	0.0
Other sources	7,621,555	4.3	-	0.0	-	0.0
Transfers out	(1,971,072)	(1.1)	(210,910)	(0.1)	(5,101,582)	(3.5)
DECREASE IN FUND BALANCE	<u>(5,465,495)</u>	<u>(3.0)</u>	<u>(1,904,139)</u>	<u>(1.1)</u>	<u>(1,843,043)</u>	<u>(1.3)</u>
FUND BALANCE, BEGINNING	<u>15,854,449</u>		<u>17,758,588</u>		<u>19,601,631</u>	
FUND BALANCE, ENDING	<u>\$ 10,388,954</u>		<u>\$ 15,854,449</u>		<u>\$ 17,758,588</u>	

General Fund amounts do not include activity related to the consolidation of Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

ALVORD UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists primarily of Medi-Cal Billing Option funds that have been recorded as restricted ending balances in the previous period and have been expended as of June 30, 2015. Additionally, the period of availability expired for Title II, Part D funds received in prior years. As a result, the funds were returned to the California Department of Education.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 19,530,589
Medi-Cal Billing Option		491,287
Title II, Part D - Enhancing Education Through Technology		35,322
Total Schedule of Expenditures of Federal Awards		<u>\$ 20,057,198</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at 1986-1987 requirements, as required by *Education Code* Section 46201.

ALVORD UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Alvord Unified School District
Riverside, 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 Alvord Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Alvord Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 18 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alvord Unified 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*.

We noted certain matters that we reported to management of Alvord Unified School District in a separate letter dated December 12, 2015.

Alvord Unified School District's Response to Findings

Alvord Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Alvord Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

VAORZNEKTRINS Day + QUP

Rancho Cucamonga, California
December 12, 2015



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

Governing Board
Alvord Unified School District
Riverside, California

Report on Compliance for Each Major Federal Program

We have audited Alvord Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Alvord Unified School District's major Federal programs for the year ended June 30, 2015. Alvord Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Alvord Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Alvord Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Alvord Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Alvord Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Alvord Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alvord Unified School District's internal control over compliance.

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

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

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

VAORZNEK, TIZINS. Day + CUP

Rancho Cucamonga, California
December 12, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Alvord Unified School District
Riverside, California

Report on State Compliance

We have audited Alvord Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Alvord Unified School District's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Alvord Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Alvord Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Alvord Unified School District's compliance with those requirements.

Basis for Qualified Opinion on After School Education and Safety Program and Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying Schedule of Findings and Questioned Costs, Alvord Unified School District did not comply with requirements regarding the After School Education and Safety Program and Unduplicated Local Control Funding Formula Pupil Counts; refer to the State Award Findings and Questioned Cost section to this report, items 2015-002 and 2015-003, respectively. Compliance with such requirements is necessary, in our opinion, for Alvord Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on After School Education and Safety Program, and Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Alvord Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Programs

In our opinion, Alvord Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2015, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Alvord Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes

Procedures
Performed

Charter Schools:

Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because attendance for the program was below the materiality threshold required for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District does not offer an Early Retirement Incentive Program; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not operate Middle or Early College High Schools; therefore, we did not perform procedures related to the Middle or Early College High School.

The District does not offer Regional Occupational Centers or Programs; therefore, we did not perform any procedures related to Regional Occupational Centers or Programs Maintenance of Effort.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

VAJZNEK, TRINA Day + COUP

Rancho Cucamonga, California
December 12, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ALVORD UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173 & 84.173A	Special Education (IDEA) Cluster
93.778	Medi-Cal Billing Option
10.553, 10.555 & 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>601,716</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all State programs except for the following State programs which was qualified:	

<u>Name of State Program</u>
After School Education and Safety Program
Unduplicated Local Control Funding Formula Pupil Counts

ALVORD UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

The following finding represents significant deficiencies and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

Human Resources & Payroll Deficiencies

2015-001 30000

Criteria or Specific Requirements

All information pertaining to the District's payroll expenditures should be captured and reported accurately. All adjustments to payroll, including sick days, vacations, leave of absences, and terminations should be taken into account in a timely manner to provide the District's Payroll Department with sufficient information to make necessary adjustments to payroll.

Condition

- 1) Sites and departments are given cutoff dates to modify employee attendance records in the AESOP system, but modifications appear to be made beyond the cutoff dates which impairs the payroll departments ability to properly adjust payroll within the same payroll cycle, as necessary.
- 2) The District's payroll department is reviewing the information in the AESOP system shortly after payroll has been processed. This business practice does not allow the District to capture any payroll adjustments within the correct payroll period.
- 3) There appears to be a lack of timely communication between the Payroll and Human Resources Departments. Specifically, key information concerning terminations, resignations, and other events that would trigger the Payroll Department to cease the processing of payroll are not conveyed in a timely manner.

Questioned costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of our review of the District's employee attendance monitoring procedures; review of payroll records, and through inquiry with the District's Payroll Department personnel.

Effect

Given the observed deficiency, the District is operating in an environment that is currently subject to over/underpayment of employee compensation. Additionally, there is a certain level of risk associated with the District's payroll expenditures reported on the District's financial statements.

ALVORD UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Cause

The deficiency appears to be triggered by the lack of procedural review in conjunction with the lack of a written policy to use as reference. With respect to incorrect salary schedule placement, the root cause appears to be triggered during the annual "roll-over" process when salary step increases become effective. The District's Human Resources Department appears to lack a standardized process to convey accurate "roll-over" information to the Payroll Department. Additionally, there appears to be errors related to the salary schedule placements performed by the District's Human Resources Department due to a lack of an administrative review and/or lack of training provided to District personnel working in the Human Resources Department.

Recommendation

The District should reevaluate its personnel and payroll procedures and strengthen its procedures that are conducive to stronger internal controls. Since the District has invested in the AESOP system, the District should strongly consider incorporating the AESOP system to develop stronger procedures over employee attendance monitoring. Once procedures have been created, sufficient training should be provided to all impacted District personnel to facilitate smooth transition of new procedures. Lastly, all adopted procedures and policies over payroll and personnel activities should be written to serve as reference for all District employees. Adherence to written policies should be strictly reinforced by the District's management.

Corrective Action Plan

The District will be taking the following corrective action to address the condition identified:

Condition #1 – In order to address the modification of employee attendance records occurring after the established cutoff dates, the district has established a leaves tracking position in Fiscal Services which will be used in part to refine the timelines and processes to enter and audit attendance records and ensure site and department compliance and minimize the need of corrections after the cutoff dates.

Condition #2 – Currently, Payroll has posted absences for reporting in the Galaxy payroll system as current through the prior month-end. With the addition of the leaves tracking position in Fiscal Services, the district is establishing a process whereby the leaves balances will be up-to-date within two weeks of the payroll reporting period ensuring that if adjustments are needed as a result of an employee having exhausted these balances, the necessary payroll adjustment will be made thus reducing the likelihood of overpayment to employees.

Condition #3 - The Payroll and Human Resources Department have been holding regular meetings especially before and after Board of Trustee meetings to ensure that all parties are aware of key events that could result in the cessation of payroll for an individual employee. In addition, a formalized process is being established to provide an appropriate document trail and establish standards and accountability.

ALVORD UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

ALVORD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance
72000	School Accountability Report Card

After School Education and Safety Program

2015-002 40000

Criteria or Specific Requirements

According to the California *Education Code* Section 8482.4(c), a district that receives state funding for an after school program must report attendance to the California Department of Education (CDE) semiannually. Such reporting must be supported by attendance records supporting student participation.

Condition

Documentation supporting the number of students served does not agree with the amounts reported on the semi-annual report. The District maintains sign out sheets for students in order to track attendance. The auditor selected three of the sixteen schools operating the program (Terrace Elementary, Valley View Elementary, and Villegas Middle) and recomputed the attendance as indicated on the sign out sheets to determine if total attendance for the month of September 2014 agrees with the amount reported on the semi-annual report. The auditor counted each student on the sign out sheet that was signed out on or after 6:00 pm or students who left early and had an early release form on file. We didn't count any student who left before 6:00 pm who didn't have an early release form. Per the auditor's count, Valley View Elementary School reported 2,309 students for the month of September 2014, but the auditor's count per criteria described above resulted in 2,304 students, resulting in five differences. Additionally, Terrace Elementary School reported 12,026 students, but the audited count yielded 11,863 students resulting in a difference of 163.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, the number of students served appears to be overstated by 168 for combined differences noted at Valley View Elementary and Terrace Elementary Schools for the month of September 2014.

ALVORD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Context

The condition identified resulted from our review of Terrace Elementary, Valley View Elementary, and Villegas Middle Schools' attendance records and monthly attendance summary totals for the month of September 2014. The auditor selected three of sixteen schools for the first semi-annual reporting period dated July to December 2014. The auditor reviewed manual sign out rosters for the month of September 2014, and reviewed monthly summaries noting multiple exceptions as noted above.

Effect

As a result of our testing, the District was not compliant with *Education Code* Section 8482.4(c) for the 2014-2015 fiscal year since the number of students served as reported to the CDE is overstated when compared to supporting records.

Cause

The attendance condition appears to have resulted from inconsistent procedures utilized to track student attendance. Furthermore, inadequate training appears to have been provided to substitute personnel responsible for completeness and accuracy of attendance reporting.

Recommendation

For accurate attendance reporting, the District should review procedures used to report the number of students served to the CDE to allow for accurate reporting. Procedures for attendance should include an independent review of the sign out sheets, early release forms, monthly summaries, and semi-annual reports prior to submitting them to the CDE. Additionally, substitute employees responsible for record keeping should be adequately trained to ensure consistency of information reported.

Corrective Action Plan

The district has put in place new procedures for reviewing the students dismissal form in place as of February 2015 and is continuing to train staff and substitutes on all procedures and documents.

In addition, a new Early Release Documentation form is being created and rolled out in the near future.

ALVORD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Unduplicated Local Control Funding Formula Pupil Counts

2015-003 40000

Criteria or Specific Requirements

The district is required to maintain supporting documentation such as a Free and Reduce Price Meal (FRPM) eligibility application or an alternative household income data collection form that indicates the student was eligible for the designation indicated on the California Longitudinal Pupil Achievement Data System (CALPADS) 2014-2015 certified report.

Condition

The District incorrectly reported a total of 812 students as having the designation of free or reduced on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report. As a result, the District's total unduplicated pupil count reported on the certified CALPADS report was overstated by 812.

Questioned Costs

While there were no direct questioned costs associated with the condition identified, the condition resulted in a decrease in the District's Local Control Funding Formula of approximately \$626,944.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Report*, in Section 19849(a)(1). The initial sample was selected from six school sites, which resulted in exceptions noted for four of these sites. Specifically, the District did not have supporting documentation for six of the 60 students selected who had a status designation of Free or Reduced on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. Upon additional inquiry and examination of supporting documentation, it appears that the District did not properly update the eligibility information for students identified as having a Free or Reduced Status as reported on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. Specifically, the manner/method in which the eligibility information was extracted from the Child Nutrition Services Department Meal Plus System was not the most current information being extracted for the purpose of CALPADS reporting. A total population of 15,622 students was identified as having a Free or Reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. The auditor requested the District to extrapolate the number of students that were subject to the updating issue identified. The District's search criteria yielded a total of 812 students that were incorrectly designated as having free or reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

ALVORD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Effect

As a result of our testing, it appears that the District did not properly update the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the most current free and reduced eligibility information from the District's Child Nutrition Services Department. The following schedule identifies the exceptions by site and District-wide:

School Code	School Name	Enrollment Count	Certified Total Unduplicate d Count	Adjustment Based on Eligibility for FRPM	Adjusted Total Unduplicate d Count	Adjusted Total Enrollment Count
6031496	Allan Orrenmaa Elementary	596	480	(24)	456	596
0126896	Alvord Alternative Education Center	118	111	(3)	108	118
3337128	Alvord Continuation High	158	144	(12)	132	158
6031504	Arizona Middle	1,111	944	(57)	887	1,111
6031512	Arlanza Elementary	609	603	0	603	609
6031520	Collett Elementary	637	567	(14)	553	637
6031538	Foothill Elementary	602	578	(8)	570	602
0125732	Hillcrest High	1,353	902	(114)	788	1,353
6031546	La Granada Elementary	687	670	(7)	663	687
3330008	La Sierra High	2,137	1,671	(136)	1,535	2,137
0113605	Lake Hills Elementary	832	420	(32)	388	832
6098156	Loma Vista Middle	1,070	1,006	(38)	968	1,070
6031553	Myra Linn Elementary	627	593	(15)	578	627
3334299	Norte Vista High	2,189	2,006	(120)	1,886	2,189
0000001	NPS School Group for Alvord Unified	38	13	(4)	9	38
0113597	Phillip M. Stokoe Elementary	774	658	(19)	639	774
6107304	Promenade Elementary	644	398	(30)	368	644
6116339	Rosemary Kennedy	550	488	(19)	469	550
6106074	S. Christa McAuliffe Elementary	753	513	(36)	477	753
6031579	Terrace Elementary	663	633	(11)	622	663
6031587	Twinhill Elementary	570	553	(10)	543	570
6108104	Valley View Elementary	394	345	(8)	337	394
6031595	Wells Middle	922	893	(12)	881	922
6120109	Ysmael Villegas Middle	1,356	944	(83)	861	1,356
District-Wide		19,390	16,133	(812)	15,321	19,390

ALVORD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Cause

The primary cause appears to originate from the manner in which the District was importing students' eligibility information from the District's Meal Plus program. The District's Meal Plus Program does not provide a start or an end date of student's eligibility status, which impaired the District's ability to identify and export student information from the Meal Plus program in a given year. In response to the problem, the District compensated by using the first day of the school year as the beginning date and the last date of enrollment as the ending date. While this procedure assisted in the export of Meal Plus program's student eligibility information into CALPADS, the process did not account for any eligibility changes that may have taken place during the year.

Recommendation

The District should emphasize the importance of completing the Form 1.18 accurately, which would including ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measure are taking place to ensure that CALPADS information is being updated.

Corrective Action Plan

The District will be taking the following corrective action to address the condition identified:

1. SIS has modified the CNS import file to AERIES to include a start and end dates as a result of the internal review to ensure that only capturing qualifying students based on the required criteria.
2. The SIS staff have added additional manual data checks as a result of the internal review and the information received regarding the October 31 Lunch application that students applied between July 1 – October 31 and are enrolled with the LEA on CBEDS date can have a NSLP open record prior to census date.
3. CNS will provide SIS a snapshot of data weekly in November and December so that SIS staff can review, audit, and monitor data systems prior to CALPADS certification.
4. CNS will provide SIS a snapshot of data three additional times in the academic year (January, March, and May) so that SIS staff can review, audit and monitor data systems.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

Human Resources & Payroll Deficiencies

2014-001 30000

Criteria or Specific Requirements

All information pertaining to the District's payroll expenditures should be captured accurately and reported accurately. All adjustments to payroll, including sick days, vacations, leave of absences, and terminations should be taken into account in a timely manner to provide the District's Payroll Department with sufficient information to make necessary adjustment to payroll.

Condition

- 1) Sites & departments are given cutoff dates to modify employee attendance records in the AESOP system, but modifications appear to be made beyond the cutoff dates which impairs the payroll departments ability to properly adjust payroll within the same payroll cycle, as necessary.
- 2) The District's Payroll department is reviewing the information in the AESOP system shortly after payroll has been processed. This business practice does not allow the District to capture any payroll adjustments within the correct payroll period.
- 3) There appears to be a lack of timely communication between the Payroll and Human Resources Departments. Specifically, key information concerning terminations, resignations, and other events that would trigger the Payroll Department to cease the processing of payroll are not conveyed in a timely manner.
- 4) There appears to be a frequent rate of error related to the determination of salary schedule placement done by the District's Human Resources Department.

Questioned costs

There were no questioned costs associated with the condition identified. However, we noted a total outstanding balance of \$175,749.80 as of March 27, 2014 that is due from current and past employees of Alvord USD. This balance appears to have been accumulated directly as a result of the conditions identified above.

Context

The condition was identified through the course of our review of the District's employee attendance monitoring procedures; review of payroll records, and through inquiry with the District's Payroll Department personnel.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Effect

Given the observed deficiency, the District is operating in an environment that is currently subject to over/underpayment of employee compensation. Additionally, there is a certain level of risk associated with the District's payroll expenditures reported on the District's financial statements.

Cause

The deficiency appears to be triggered by the lack of procedural review in conjunction with the lack of written policies to use as reference. With respect to incorrect salary schedule placement, the cause appears to be triggered during the annual "roll-over" process when salary step increases become effective. The District's Human Resources Department appears to lack a standardized process to convey accurate "roll-over" information to the Payroll Department.

Recommendation

The District should reevaluate its personnel and payroll procedures and strengthen its procedures that are conducive to stronger internal controls. Since the District has invested in the AESOP system, the District should strongly consider incorporating the AESOP system to develop stronger procedures over employee attendance monitoring. Once procedures have been created, sufficient training should be provided to all District personnel to facilitate the transition of new procedures. Lastly, all adopted procedures and policies over payroll and personnel activities should be written to serve as reference for all District employees. Adherence to written policies should be strictly reinforced by the District's management.

Current Status

Partially implemented. See Finding 2015-001

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Purchasing Deficiency – Bidding Procedures

2014-002 30000

Criteria or Specific Requirements

Public Contract Code (PCC) Section 20111 requires the District's governing board to obtain competitive bids and award any contract involving expenditures meeting or exceeding the most current dollar threshold, to the lowest responsible bidder, Contracts subject to competitive bidding include:

- 1) Purchase of equipment, materials, or supplies to be furnished, sold, or leased to the District.
- 2) Service
- 3) Repairs, including maintenance, as defined in PCC Section 20115
- 4) Public works projects, as defined in PCC Section 22002(c)

For the purpose of securing bids, PCC Section 20112 requires the District to publish the solicitation of bids, at least once a week for two weeks, in some newspaper of general circulation or through an electronic portal/District's website.

Condition

The District was involved in a significant acquisition of vehicles during the current fiscal year in which the actual expenditures (\$277,249) related to the acquisition exceeded the bidding threshold per PCC Section 20111 (calendar year 2014's threshold was identified as \$84,100). However, it appears that that District did not take the necessary steps to comply with the requirement. Moreover, the District appears to have not adhered to the requirements set forth in PCC Section 20112. Lastly, the District's purchasing procedures appear to be inadequate to properly identify transactions that may be subject to PCC 20111. Consequently, there appears to be a high likelihood that there can be other contracts/agreements that may also be in violation of the bidding requirements.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of our review of the District's purchase orders, disbursement procedures, and through inquiry with the District's Accounts Payable personnel.

Effect

The District appears to be non-compliant with regulations governing contracts awarded by Districts. Specifically, PCC Section 20111 pertaining to bidding requirements/threshold and PCC Section 20112 pertaining to the solicitation of competitive bids appear to be in question.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Cause

The District's purchasing functions were being performed by a single buyer for the last two fiscal years after the departure of the District's former purchasing supervisor. Subsequently, sites/departments have taken up decentralized purchasing responsibilities. As a result, it appears that the lack of centralized purchasing procedures combined with the possible lack of knowledgeable Purchasing Department personnel have aggregately created the condition identified above.

Recommendation

The District should strongly consider centralizing all purchasing related activities and the responsibility should be directly delegated to the District's Purchasing Department. In addition, the District should consider implementing a review/approval procedure to ensure the proper identification of transactions that are potentially subject to the bidding requirements. At a minimum, the District should ensure that all purchase orders and/or requisitions are reviewed/approved by an employee with sufficient knowledge of PCC Section 20111 and 20112. In an effort to amend the District's purchasing policies and procedures, the District may consider the need to train all site/department level personnel to ensure a problem-free transition.

Current Status

Implemented.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Federal Awards Findings

2014-003 Code 50000

Federal Program Affected

Program Name: Child Nutrition Cluster
CFDA Number: 10.553, 10.555, 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria or Specific Requirements

Title 7 Part 245, Section 245.6a describes the verification requirements for the Child Nutrition Cluster. Specifically, Section 245.6a(f)(iv)(7) describes the requirements for changes to eligibility. Furthermore, Section 245.6a(j) describes the requirements for adverse actions in situations where households fail to respond to eligibility verification requests.

Condition

For the fiscal year of 2013-2014, the following observations were made:

- 1) Based on sampling, the District appears to have made inaccurate eligibility determinations for applications that were selected for verification. Income documents submitted by household submitted for verification appears to have indicated a "paid" status. However, the District's system used to track household eligibility supported a "free" status.
- 2) Based on sampling, the District appears to have not changed household that have failed to respond to the District's verification efforts to "paid" status.

Questioned Costs

There were no questioned costs identified.

Context

The condition was identified through the course of our review of the District's annual free and reduced meals application verification process. In conjunction, we reviewed supporting documents provided by the District and records indicated on the District's computer systems.

Effect

The District appears to have performed incomplete/inadequate verification procedures that do not meet the requirements under Title 7, Code of Federal Regulation, Part 245, Section 245.6a.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Cause

The condition identified appears to have materialized due to the District's lack of properly designed internal controls to monitor the District's eligibility verification efforts. The District appears to be properly performing its annual verification requirements. However, the District appears to lack management oversight of personnel directly involved with the verification process. Furthermore, a contributory factor may be attributed to inadequate training and knowledge of the verification requirements.

Recommendation

The District should review the requirements stated in Title 7, Code of Federal Regulation, Part 245, Section 245.6a and implement a procedure to address the deficiency currently identified with the District's verification process. Additionally, formal procedures should be written and adopted by the District to ensure that the District is prepared to meet the requirements in case of future personnel transitions. The District's written procedure should address management's oversight responsibility as well as continued efforts to properly educate and train employees that are directly involved with the verification requirements.

Current Status

Implemented.

2014-004 Code 50000

Federal Program Affected

Program Name: Medi-Cal Billing Option
CFDA Number: 93.778
Pass-Through Entity: California Department of Health Services
Federal Agency: U.S. Department of Health and Human Services

Criteria or Specific Requirements

OMB Circular A-87 Cost Principles as governed by Title 2, Code of Federal Regulations, Part 225, Appendix B, Item 12(a) states that contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

Condition

The District made a monetary donation to non-profit organization using Medi-Cal Billing Option program funds.

Questioned Costs

A total of \$15,000 in questioned costs was identified as a result of the condition identified above.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Context

The condition was identified as a result of the auditor's review of the Medi-Cal Billing Option, expenditure detail and inquiry of Fiscal Services Department personnel. In reviewing supporting documentation of warrant, we noted the amount in question was for a donation to a non-profit organization.

Effect

As a result of the condition identified, the District's donation of Federal funds does not meet the requirements set forth under Title 7, Code of Federal Regulations, Part 225, Appendix B, Item 12(a).

Cause

The condition identified appears to have materialized due to the District's lack of understanding of Title 2 CFR Part 225 which identifies the cost principles for State, local, Indian tribal governments.

Recommendation

The District should transfer the identified amount of questioned costs from unrestricted General Fund to the Medi-Cal Billing Option Program. Additionally, the District should ensure that all employees involved with administering Federal programs are familiar with Federal cost principles. The District may consider providing supplemental training to employees involved in the administration of Federal programs to ensure future compliance with all Federal cost principles.

Current Status

Implemented

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

State Awards Findings

After School Education and Safety Program – Attendance and Reporting

2014-005 Code 40000

Criteria or Specific Requirements

According to *Education Code* Section 8483(a)(1), elementary school pupils are to participate in the full day of the program every day during which pupils participate and pupils in middle or junior high schools are to attend the after school program a minimum of nine hours a week and three days a week, except as consistent with the established early release policy. Adequate documentation that supports attendance participation must be maintained by each site that documents that students are attending the program consistent with the early release policy.

Condition

There appears to be some instances in which there are missing records to support students leaving the program as required by the District's policy. The District has a procedure to indicate the reason for early release on a designated column on the early release log. For those students that stay the entire program, parents are required to sign out indicating the student is released. However, there are 5 records on the roster that were mistakenly recorded which did not match sign in sheets. While reviewing Myra Linn Elementary school monthly summary total for the months of December 2013 and in comparing the total by sites attendance rosters, it was noted that the monthly summary total different. Myra Linn Elementary attendance rosters had a total of 1,369 students served where as the total of the monthly summary are 1,353 students served, resulting in 16 exceptions. Twinhill Elementary school attendance rosters had a total of 1,421 students served where as the total of the monthly summary are 1,420 students served, resulting in 1 exception. Lastly, Arizona Middle school attendance log had a total of 1,040 discrepancies in comparison to what was reported by the District for the month of December 2013.

Context

The condition identified was determined through review of rosters and logs from the two of sixteen sites that operate the after school program. The auditor selected two schools for the first semi-annual reporting period dated August to December 2013. During reviewing the auditor noted there was no record of students' sign in time but only sign out time on the logs. Therefore the auditor was not able to verify whether the students were present the whole time due to the uncompleted log sheets.

Effect

As a result of our testing, the District does not appear to be in compliance with EC Section 8483(a)(1). There is not sufficient documentation to support whether or not students participated in the full day of the program.

ALVORD UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Cause

It appears that the condition identified has materialized as a result of the site not having adequate documentation to show that students were present for the whole program day.

Recommendation

The District should strive to improve implemented procedures requiring site personnel to document on the sign in and out form the early release of students. The auditor noted that the procedures to document a student's early release are sufficient to support that the early release of participants is in accordance with the early release policy. The District should communicate to the sites the importance of following the established procedures to ensure compliance with program requirements. The procedures should be consistent with the attendance and early release policy and reviewed by the program director.

Current Status

Not implemented. See finding 2015-003.



Governing Board
Alvord Unified School District
Riverside, California

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

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2015, on the government-wide financial statements of the District.

INTERNAL CONTROLS

Self-Insurance Revolving Account

Observation

The District uses a revolving account in connection with its self-insured worker compensation activities. The revolving account was created to facilitate the administration of claims handling process by a third party administrator. Based on our review of this revolving account, it appears that the District has not reported this revolving account in its financial statements. Consequently, the District has understated its assets in the Self-Insurance Fund by approximately \$50,571 as of June 30, 2015.

Recommendation

Although the District does not use the self-insured revolving account to pay its own workers compensation claims, the account is still considered an asset to the District. The District should report this balance on its financial statements in order to ensure the completeness of its assets shown in the Self Insurance Fund. Furthermore, any other revolving accounts with similar usage mechanism should be reported on the District's financial statements.

Capital Asset Deletions

Observation

The District currently does not appear to have a procedure to monitor and track capital asset deletions. Specifically, the District does not appear to be performing periodic inventory of its capital assets that are in the equipment categories. As a result, there is a risk of the District's capital assets and related accumulated depreciation being overstated.

Recommendation

The District should implement a periodic capital asset inventory process. At a minimum, the District should perform this task annually to ensure that all equipment dispositions have been properly accounted as of fiscal year-end.

Segregation of Duty – Galaxy System Access

Observation

Per our review of system accessibility programmed in the Galaxy system, we noted that various personnel have access to conflicting functions that would compromise the integrity of the District's internal controls related to both accounts payable/purchasing and payroll/personnel functions. Specifically, employees with access to the accounts payable module are also granted access to purchasing module that would permit the addition and/or editing of vendor information. Additionally, payroll personnel have access to Human Resources related functions such as editing salary schedule placements without any compensating controls.

Recommendation

The District has defined responsibilities for all personnel and the accessibility to Galaxy system should mirror that determination. Accounting personnel should only have access to system functions that are necessary to complete their tasks. The District should ensure that accounts payable personnel are limited to accessing only the accounts payable functions. Additionally, access to human resources functions should be either eliminated from personnel involved with payroll responsibilities or the District should consider implementing compensating controls such as an additional review process.

ASSOCIATED STUDENT BODY (ASB)

Villegas Middle School

Observations

The following observations were made during our review of the ASB's internal control procedures:

- 1) Based on our review of sample cash receipts and the corresponding cash deposits, we noted that sample cash receipts were not deposited in the timely manner. We noted delays in deposits ranging from eight to 14 days for the cash receipts sampled. Additionally, automated receipts generated from the ASB's Blue Bear system appears not to be deposited in a sequential manner.

- 2) Based on our review of sample fundraising events held during the 2014-2015 fiscal year, it appears that not all fundraising activities are being pre-approved to limit or eliminate competition between clubs and to determine the appropriateness of the fundraising event. Furthermore, all sample revenue potential forms reviewed were not completed subsequent to the completion of the fundraising event. Specifically, we noted that revenue potential forms were missing the section where actual results are compared to projected estimates.
- 3) Sample disbursements reviewed appear to be paid without any acknowledgement/confirmation of goods being received or services being rendered. Additionally, one of the sample disbursement reviewed was shipped directly to one of the employee's personal residence.
- 4) Sample disbursements reviewed were not always approved by the authorized personnel.
- 5) More than 50 percent of sample disbursements reviewed were not pre-approved prior to transactions taking place.

Recommendations

- 1) In order to maintain organized records related to deposits made, deposits should be made in accordance to the sequential order of receipts being generated from the Blue Bear system. This would facilitate the tracking of deposits made by the ASB. Timeliness of deposits plays a key factor in safekeeping of cash. At a minimum, ASB should be making weekly deposits and the frequency of deposits should be increased based on the volume of cash being collected by the ASB.
- 2) ASB clubs that are interested in conducting fundraisers are required to first make a request to participate in an event that is approved by the ASB student body and advisors. Approval usually occurs within the ASB minutes of meetings held. Preapproval would serve as a review of the event for allowability and also to determine whether there is a similar event that is being held on the same date. In addition, at the conclusion of a fundraiser, the ASB should ensure that all activities are reported on the Revenue Potential Form, including an explanation of any differences between projected and actual results to assist in determining the success of the fundraiser.
- 3) Explicit documentation of whether goods have been received or services have been rendered should be indicated on invoices prior to disbursements being made using ASB funds.
- 4) All expenditures, prior to the items being purchased, should be approved by the student council to ensure that the proper funding is available. This procedure will not only ensure that deficit spending is not performed, and that items being purchased are student approved items. Additionally, approval of all ASB disbursements must be authorized by designated site personnel and student representative to ensure that ASB funds are being used appropriately.

Norte Vista High School

Observations

The following observations were made during our review of the ASB's internal control procedures:

- 1) The ASB appears to lack basic cash handling procedures. Specifically, cash remitted by clubs to the ASB bookkeeper is not being counted with both parties being present. As a result, the current manner in which cash is being handled is prone to errors and potential misappropriation.
- 2) All sample revenue potential forms reviewed were not completed subsequent to the completion of the fundraising event. Specifically, we noted that revenue potential forms were missing the section where actual results are compared to projected estimates.
- 3) It appears that the ASB is not using pre-numbered tickets and ticket logs to document ticketed activities. Additionally, the ASB is currently not performing sales reconciliations on revenues generated from ticketed events.
- 4) Sample disbursements reviewed appear to be paid without any acknowledgement/confirmation of goods being received or services being rendered.
- 5) Sample disbursements reviewed were not always pre-approved prior to transactions taking place.
- 6) One of 21 disbursements reviewed appears to be questionable within the ASB's scope of allowable activities. Specifically, the site's swim team conducted a fundraiser where half of the revenue generated was given to a chosen recipient as a scholarship.
- 7) Based on our review of the ASB's student store activities, it appears that there is a lack of sales reconciliation taking place in connection with the sale of goods in the student store. It appears that the number of goods sold is not being reconciled back to the cash collected periodically.

Recommendations

- 1) Cash counts should always take place in the presence of two parties and counts should be documented in a written format with both parties certifying their counts using their signatures. Additionally, accountability of cash collected should always be performed immediately upon the conclusion of any fundraising events.
- 2) ASB clubs that are interested in conducting fundraisers are required to first make a request to participate in an event that is approved by the ASB student body and advisors. Approval usually occurs within the ASB minutes of meetings held. Preapproval would serve as a review of the event for allow ability and also to determine whether there is a similar event that is being held on the same date. In addition, at the conclusion of a fundraiser, the ASB should ensure that all activities are reported on the Revenue Potential Form, including an explanation of any differences between projected and actual results to assist in determining the success of the fundraiser.

Governing Board
Alvord Unified School District

- 3) When considering tickets in place of receipts, the ASB should purchase pre-numbered tickets that are sequentially numbered. Additionally, ticket logs should be maintained to document each and every ticketed event and sales reconciliation sheets should be utilized to determine the completeness of sales revenue generated from ticketed events.
- 4) Explicit documentation of whether goods have been received or services have been rendered should be indicated on invoices prior to disbursements being made using ASB funds.
- 5) All expenditures, prior to the items being purchased, should be approved by the student council to ensure that the proper funding is available. This procedure will not only ensure that deficit spending is not occurring, and that items being purchased are student approved items. Additionally, approval of all ASB disbursements must be authorized by designated site personnel and student representative to ensure that ASB funds are being used appropriately
- 6) The Fiscal Crisis & Management Assistance Team 2015 ASB Accounting Manuel states the following regarding scholarships from ASBs: "Scholarships paid from student body fundraisers rather than from outside donations are normally not allowable because they do not benefit a group of students. School district governing boards may sometimes approve fund-raisers specifically to raise scholarship funds, or may approve a club whose sole purpose is to raise scholarship funds. If governing board approval has been received, a separate trust account should be opened within the ASB specifically for these donations, with board approval, and then closed after the scholarship(s) are paid. It is critical to ensure that the board approves this fund-raising and to clearly document that the only funds raised for scholarships are those that were fund-raised and paid out for that specific purpose. No funds from other clubs or accounts should be used for scholarships.
- 7) Sales reconciliations should be performed regularly to ensure that the cash generated from sale of inventory is consistent with the physical inventory sold. In practice, beginning inventory of goods should be taken prior to sales activities and ending inventory of goods should be taken at the conclusion of the sales event. The difference between beginning and ending inventory should be determined and expected sales revenue should be calculated using the unit price of goods being sold. Lastly, actual sales should be compared with the calculated expected sales. Differences identified should be further examined, as needed.

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

VAORZNEK, TIZAS. Day + QUP

Rancho Cucamonga, California
December 12, 2015