



**SADDLEBACK VALLEY
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2014

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Proprietary Funds - Statement of Net Position	21
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	22
Proprietary Funds - Statement of Cash Flows	23
Fiduciary Funds - Statement of Net Position	24
Fiduciary Funds - Statement of Changes in Net Position	25
Notes to Financial Statements	26

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	61
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	62

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	64
Local Education Agency Organization Structure	66
Schedule of Average Daily Attendance	67
Schedule of Instructional Time	68
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	69
Schedule of Financial Trends and Analysis	70
Schedule of Charter Schools	71
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	73
Note to Supplementary Information	74

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	79
Report on State Compliance	81

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	84
Financial Statement Findings	85
Federal Awards Findings and Questioned Costs	86
State Awards Findings and Questioned Costs	87
Summary Schedule of Prior Audit Findings	88
Management Letter	90

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified School District, as of June 30, 2014, 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.

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 and other postemployment benefit information on pages 61 and 62, 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 Saddleback Valley Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor 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 9, 2014, on our consideration of the Saddleback Valley 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 Saddleback Valley Unified School District's internal control over financial reporting and compliance.

VARRINCK TRINE DM + W, W

Rancho Cucamonga, California
December 9, 2014



SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
25631 Peter A. Hartman Way · Mission Viejo, California 92691 · (949) 586-1234 · www.svusd.org

Board of Education

Dennis Walsh, President · Don Sedgwick, Vice President · Suzie R. Swartz, Clerk
Ginny Fay Aitkens, Member · Dolores Winchell, Member

Clint Harwick, Ed.D.
Superintendent

This section of Saddleback Valley 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, 2014. 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. They present governmental and business-type activities separately. 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 Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

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

The *Fiduciary Activities* 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 Saddleback Valley Unified School District.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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*, we separate the District activities as follows:

Governmental Activities – Most of the District's services are reported in this category. 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.

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's recreational programs and services are included here.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. 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, and the receipt of special taxes for the payment of non-obligatory debt. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position* and *Statement of Changes in 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$330,934,777 for the fiscal year ended June 30, 2014, reflecting an increase of 0.8 percent since June 30, 2013. Of this amount, \$45,583,723 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		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 179,480,436	\$ 190,939,313	\$ 1,224,167	\$ 1,132,831	\$ 180,704,603	\$ 192,072,144
Capital assets	374,620,055	360,397,070	113,722	135,621	374,733,777	360,532,691
Total Assets	554,100,491	551,336,383	1,337,889	1,268,452	555,438,380	552,604,835
Deferred Outflows of Reserves	5,397,453	-	-	-	5,397,453	-
Liabilities						
Current liabilities, including current portion of long-term obligations	33,573,259	22,557,163	962,600	941,176	34,535,859	23,498,339
Long-term obligations	195,365,197	200,783,202	-	-	195,365,197	200,783,202
Total Liabilities	228,938,456	223,340,365	962,600	941,176	229,901,056	224,281,541
Net Position						
Net investment in capital assets	218,256,355	211,040,762	113,722	135,621	218,370,077	211,176,383
Restricted	66,980,977	69,888,234	-	-	66,980,977	69,888,234
Unrestricted	45,322,156	47,067,022	261,567	191,655	45,583,723	47,258,677
Total Net Position	\$ 330,559,488	\$ 327,996,018	\$ 375,289	\$ 327,276	\$ 330,934,777	\$ 328,323,294

The \$45,583,723 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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		Business-Type Activities		School District Activities	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 2,803,616	\$ 3,148,753	\$ 2,545,023	\$ 2,427,630	\$ 5,348,639	\$ 5,576,383
Operating grants and contributions	45,425,911	40,059,806	1,109,006	1,149,822	46,534,917	41,209,628
Capital grants and contributions	7,649	9,311,440	-	-	7,649	9,311,440
General revenues:						
Federal and State aid not restricted	57,023,444	52,262,334	-	-	57,023,444	52,262,334
Property taxes	152,269,657	147,670,723	-	-	152,269,657	147,670,723
Other general revenues	25,251,976	20,627,318	1,353	1,751	25,253,329	20,629,069
Total Revenues	282,782,253	273,080,374	3,655,382	3,579,203	286,437,635	276,659,577
Expenses						
Instruction	160,498,545	161,825,123	-	-	160,498,545	161,825,123
Instruction-related	22,802,904	21,126,733	-	-	22,802,904	21,126,733
Pupil services	20,584,528	19,800,959	-	-	20,584,528	19,800,959
Administration	10,358,889	9,632,258	-	-	10,358,889	9,632,258
Plant services	20,101,278	19,531,756	-	-	20,101,278	19,531,756
Interest on long-term obligations	10,373,823	8,584,811	-	-	10,373,823	8,584,811
Other	35,498,816	32,821,703	-	-	35,498,816	32,821,703
Enterprise activities	-	-	3,607,369	3,536,547	3,607,369	3,536,547
Total Expenses	280,218,783	273,323,343	3,607,369	3,536,547	283,826,152	276,859,890
Change in Net Position	\$ 2,563,470	\$ (242,969)	\$ 48,013	\$ 42,656	\$ 2,611,483	\$ (200,313)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$280,218,783. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$152,269,657 because the cost was paid by those who benefited from the programs (\$2,803,616) or by other governments and organizations who subsidized certain programs with grants and contributions (\$45,433,560). We paid for the remaining "public benefit" portion of our governmental activities with \$82,275,420 in Federal and State funds, and with other revenues, like interest and general entitlements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction-related programs, pupil services, administration, plant services, interest on long-term obligations, and all other services. 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	
	2014	2013	2014	2013
Instruction	\$ 160,498,545	\$ 161,825,123	\$ 133,847,401	\$ 125,327,656
Instruction-related	22,802,904	21,126,733	16,940,344	18,427,945
Pupil services	20,584,528	19,800,959	13,605,996	11,884,893
Administration	10,358,889	9,632,258	8,340,041	8,261,809
Plant services	20,101,278	19,531,756	19,768,467	19,388,240
Interest on long-term obligations	10,373,823	8,584,811	10,373,823	8,584,811
Other	35,498,816	32,821,703	29,105,535	28,927,990
Total	\$ 280,218,783	\$ 273,323,343	\$ 231,981,607	\$ 220,803,344

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$133,078,818, which is an decrease of \$887,205 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 55,481,366	\$ 242,193,883	\$ 230,628,461	\$ 67,046,788
Debt Service Fund for Blended Component Units	31,591,925	896,172	5,080,550	27,407,547
Non-Major Governmental Funds	46,892,732	49,839,385	58,107,634	38,624,483
Total	\$ 133,966,023	\$ 292,929,440	\$ 293,816,645	\$ 133,078,818

The primary reasons for these increases/decreases are:

- The General Fund showed an increase of \$11.6 million.
- The Debt Service Fund for Blended Component Units showed a decrease of \$4.2 million.
- The Non-Major Governmental Funds showed a decrease of \$ 8.3 million.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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 9, 2014. (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 61.)

The key differences between the original budget, final budget and actual results is attributable to:

- Re-allocation of carry-overs including school site gifts, resource allocation and categorical programs.
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.
- Favorable health benefits claims and one-time Federal Early Retirement Reinsurance Program Funds.

As has been the practice of the District, Saddleback Valley Unified School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical or school carryover, while the final budget and actual results reflects these carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$374,733,777 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$14,201,086, or 3.9 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land and construction in progress	\$ 58,123,006	\$ 44,011,689	\$ -	\$ -	\$ 58,123,006	\$ 44,011,689
Buildings and improvements	309,640,837	308,882,187	97,144	122,144	309,737,981	309,004,331
Furniture and equipment	6,856,212	7,503,194	16,578	13,477	6,872,790	7,516,671
Total	\$ 374,620,055	\$ 360,397,070	\$ 113,722	\$ 135,621	\$ 374,733,777	\$ 360,532,691

The overall increase in net capital assets of \$14.2 million is attributable to \$14.1 million in construction related to the Trabuco High School's modernization project, \$.7 million net of depreciation (see Note 4) for other building improvements offset by \$.6 million in furniture and equipment depreciation.

Additional capital projects are planned for the 2014-2015 year. We anticipate capital additions to be \$4 million for the 2014-2015 year.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Long-Term Obligations

At the end of this year, the District had \$205,966,550 in long-term obligations versus \$200,783,202 last year, an increase of 2.6 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2014	2013
General obligation bonds - net (financed with property taxes)	\$ 141,848,851	\$ 136,647,641
Public financing authority bonds	26,638,843	30,137,659
Compensated absences	2,224,000	2,335,213
Supplemental employment retirement plan	8,181,546	6,968,449
Other postemployment benefits	16,256,124	13,438,131
Claims liability	10,817,186	11,256,109
Total	\$ 205,966,550	\$ 200,783,202

Long-term obligations include general obligation bonds, public financing authority bonds, compensated absences payable, other postemployment benefits, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

The District plans on funding the \$8.1 million supplemental retirement plan obligation in the 2014-2015 school year.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

- Developed the Local Control and Accountability Plan.
- Expanded implementation of the Common Core State Standards (CCSS).
- All sites developed and implemented a Literacy Goal.
- Promoted and supported teacher leadership.
- Mathematics instructional materials were adopted by the Board of Education for use in the 2014-2015 school year for grades K-8.
- Implemented "Door to the Core".
- Purchased Chromebooks for all fourth, seventh and tenth grade students.
- Trained over 250 teachers on maximizing a 1:1 CCSS classroom environment.
- Identified Curriculum Leaders at all schools.
- Rolled out 10,603 Chromebooks (includes Door to the Core and site purchased devices).
- Secured UC/CSU A-G status for 6 online courses that were developed within the district.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- Completed successful Western Association of Schools and Colleges (WASC) three year reviews.
 - Laguna Hills High School
 - Silverado and Mira Monte High School.
- Decreased class size grades 4-12 by 2.5 students.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2014-2015 year, the governing board and management used the following criteria:

The key revenue forecast assumptions are as follows:

- (1) The budget was initially based on the "May Revise", which represents the Governor's final recommended budget to our State Legislature and later revised based on the State adopted budget.

The District's major source of income will be the Local Control Funding Formula. The LCFF is largely based on average daily attendance (ADA). Since the 2003-2004 fiscal year, the District has declined in enrollment by over 6,000 students. Comparing CBEDS, or October census day enrollments, in 2012-2013 the District experienced a decline of 530 students. This was followed in 2013-14 by an additional decline of 623 students. For 2014-2015 the District's October enrollment declined another 703 students.

- (2) The budget includes full restoration of reductions made in the 2009-2010 school year. Restored items include two furlough days for Teachers, three for Psychologist, and Speech Pathologists and nine for Management. The California School Employees Association restored up to six furlough days based on individual work years along with ending a four year freeze in step and column.

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 Assistant Superintendent of Business, at Saddleback Valley Unified School District, 25631 Peter A Hartman Way, Mission Viejo, California, 92691, or e-mail at partidag@svusd.org.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Deposits and investments	\$ 131,772,339	\$ 760,960	\$ 132,533,299
Receivables	46,704,413	535,951	47,240,364
Internal balances	72,744	(72,744)	-
Prepaid expenses	548,762	-	548,762
Stores inventories	382,178	-	382,178
Capital assets			
Land and construction in process	58,123,006	-	58,123,006
Other capital assets	506,966,064	565,479	507,531,543
Less: accumulated depreciation	(190,469,015)	(451,757)	(190,920,772)
Total Capital Assets	<u>374,620,055</u>	<u>113,722</u>	<u>374,733,777</u>
Total Assets	<u>554,100,491</u>	<u>1,337,889</u>	<u>555,438,380</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>5,397,453</u>	<u>-</u>	<u>5,397,453</u>
LIABILITIES			
Accounts payable	17,859,196	315,255	18,174,451
Accrued interest payable	4,370,979	-	4,370,979
Unearned revenue	741,731	647,345	1,389,076
Long-term obligations			
Current portion of long-term obligations	10,601,353	-	10,601,353
Noncurrent portion of long-term obligations	<u>195,365,197</u>	<u>-</u>	<u>195,365,197</u>
Total Long-Term Liabilities	<u>205,966,550</u>	<u>-</u>	<u>205,966,550</u>
Total Liabilities	<u>228,938,456</u>	<u>962,600</u>	<u>229,901,056</u>
NET POSITION			
Net investment in capital assets	218,256,355	113,722	218,370,077
Restricted for:			
Debt service	31,703,961	-	31,703,961
Capital projects	10,982,248	-	10,982,248
Educational programs	6,881,263	-	6,881,263
Other activities	17,413,505	-	17,413,505
Unrestricted	<u>45,322,156</u>	<u>261,567</u>	<u>45,583,723</u>
Total Net Position	<u>\$ 330,559,488</u>	<u>\$ 375,289</u>	<u>\$ 330,934,777</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 160,498,545	\$ 226,089	\$ 26,417,406	\$ 7,649
Instruction-related activities:				
Supervision of instruction	4,390,599	6,074	1,731,429	-
Instructional library, media, and technology	3,941,114	-	3,879,604	-
School site administration	14,471,191	2,679	242,774	-
Pupil services:				
Home-to-school transportation	4,891,647	-	188,366	-
Food services	6,029,839	2,086,800	3,357,049	-
All other pupil services	9,663,042	11,119	1,335,198	-
Administration:				
Data processing	2,582,171	-	-	-
All other administration	7,776,718	123,120	1,895,728	-
Plant services	20,101,278	31,450	301,361	-
Facility acquisition and construction	1,865,888	-	-	-
Ancillary services	1,324,978	17	1,165	-
Community services	7,830,783	17,727	240,114	-
Enterprise services	50,816	-	-	-
Interest on long-term obligations	10,373,823	-	-	-
Other outgo	8,540,190	298,541	5,835,717	-
Depreciation (unallocated) ¹	15,886,161	-	-	-
Total Governmental Activities	280,218,783	2,803,616	45,425,911	7,649
Business-Type Activities				
Enterprise services	3,607,369	2,545,023	1,109,006	-
Total School District	\$ 283,826,152	\$ 5,348,639	\$ 46,534,917	\$ 7,649
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

¹ This amount excludes any depreciation that is included in the direct expenses of the various programs.

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

**Net (Expenses)
Revenues and
Changes in Net Position**

Governmental Activities	Business- Type Activities	Total
\$ (133,847,401)	\$ -	\$ (133,847,401)
(2,653,096)	-	(2,653,096)
(61,510)	-	(61,510)
(14,225,738)	-	(14,225,738)
(4,703,281)	-	(4,703,281)
(585,990)	-	(585,990)
(8,316,725)	-	(8,316,725)
(2,582,171)	-	(2,582,171)
(5,757,870)	-	(5,757,870)
(19,768,467)	-	(19,768,467)
(1,865,888)	-	(1,865,888)
(1,323,796)	-	(1,323,796)
(7,572,942)	-	(7,572,942)
(50,816)	-	(50,816)
(10,373,823)	-	(10,373,823)
(2,405,932)	-	(2,405,932)
(15,886,161)	-	(15,886,161)
<u>(231,981,607)</u>	<u>-</u>	<u>(231,981,607)</u>
-	46,660	46,660
<u>(231,981,607)</u>	<u>46,660</u>	<u>(231,934,947)</u>
139,952,099	-	139,952,099
10,204,615	-	10,204,615
2,112,943	-	2,112,943
57,023,444	-	57,023,444
288,184	-	288,184
24,963,792	1,353	24,965,145
<u>234,545,077</u>	<u>1,353</u>	<u>234,546,430</u>
2,563,470	48,013	2,611,483
327,996,018	327,276	328,323,294
<u>\$ 330,559,488</u>	<u>\$ 375,289</u>	<u>\$ 330,934,777</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2014

	General Fund	Debt Service Fund For Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 57,055,972	\$ 4,417,227	\$ 42,195,941	\$ 103,669,140
Receivables	21,556,959	22,990,320	1,281,489	45,828,768
Due from other funds	978,989	-	84,005	1,062,994
Prepaid expenditures	511,728	-	37,034	548,762
Stores inventories	354,168	-	28,010	382,178
Total Assets	\$ 80,457,816	\$ 27,407,547	\$ 43,626,479	\$ 151,491,842
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,031,404	\$ -	\$ 3,454,589	\$ 16,485,993
Due to other funds	314,334	-	923,072	1,237,406
Unearned revenue	65,290	-	624,335	689,625
Total Liabilities	13,411,028	-	5,001,996	18,413,024
Fund Balances:				
Nonspendable	985,896	-	496,877	1,482,773
Restricted	6,881,263	27,407,547	26,320,346	60,609,156
Committed	-	-	103,018	103,018
Assigned	1,599,362	-	11,704,242	13,303,604
Unassigned	57,580,267	-	-	57,580,267
Total Fund Balances	67,046,788	27,407,547	38,624,483	133,078,818
Total Liabilities and Fund Balances	\$ 80,457,816	\$ 27,407,547	\$ 43,626,479	\$ 151,491,842

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Funds		\$ 133,078,818
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	\$ 565,089,070	
Accumulated depreciation is	<u>(190,469,015)</u>	
Net Capital Assets		374,620,055
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.		(4,370,979)
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.		16,983,505
Deferred charges on refunding (difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) are included with governmental activities.		5,397,453
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	126,840,000	
Premium on issuance of bonds	15,008,851	
Public financing authority bonds	26,638,843	
Compensated absences (vacations)	2,224,000	
Supplemental employment retirement plan	8,181,546	
Net OPEB obligation	<u>16,256,124</u>	
Total Long-Term Obligations		(195,149,364)
Total Net Position - Governmental Activities		<u><u>\$ 330,559,488</u></u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Debt Service Fund For Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 191,041,350	\$ -	\$ 500,000	\$ 191,541,350
Federal sources	9,806,581	-	4,342,180	14,148,761
Other State sources	37,193,257	-	2,031,951	39,225,208
Other local sources	4,152,695	896,172	31,844,301	36,893,168
Total Revenues	242,193,883	896,172	38,718,432	281,808,487
EXPENDITURES				
Current				
Instruction	155,898,164	-	810,731	156,708,895
Instruction-related activities:				
Supervision of instruction	4,237,480	-	84,731	4,322,211
Instructional library, media, and technology	3,916,548	-	-	3,916,548
School site administration	14,040,076	-	225,423	14,265,499
Pupil services:				
Home-to-school transportation	4,890,184	-	-	4,890,184
Food services	-	-	5,979,439	5,979,439
All other pupil services	9,442,587	-	69,750	9,512,337
Administration:				
Data processing	2,576,338	-	-	2,576,338
All other administration	7,120,804	-	587,653	7,708,457
Plant services	19,764,681	-	146,045	19,910,726
Facility acquisition and construction	1,070,675	-	30,741,785	31,812,460
Ancillary services	1,312,638	-	-	1,312,638
Community services	3,465	-	7,736,849	7,740,314
Other outgo	5,760,238	-	2,193,561	7,953,799
Enterprise services	8,192	-	-	8,192
Debt service				
Principal	-	3,985,000	4,805,000	8,790,000
Interest and other	-	1,095,550	4,726,667	5,822,217
Total Expenditures	230,042,070	5,080,550	58,107,634	293,230,254
Excess (Deficiency) of Revenues Over (Under) Expenditures	12,151,813	(4,184,378)	(19,389,202)	(11,421,767)
Other Financing Sources (Uses)				
Other sources - proceeds from refunding bonds	-	-	11,120,953	11,120,953
Transfers out	(586,391)	-	-	(586,391)
Net Financing Sources (Uses)	(586,391)	-	11,120,953	10,534,562
NET CHANGE IN FUND BALANCES	11,565,422	(4,184,378)	(8,268,249)	(887,205)
Fund Balances - Beginning	55,481,366	31,591,925	46,892,732	133,966,023
Fund Balances - Ending	\$ 67,046,788	\$ 27,407,547	\$ 38,624,483	\$ 133,078,818

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

SADDLEBACK VALLEY 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, 2014

Total Net Change in Fund Balances - Governmental Funds **\$ (887,205)**
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 capital outlays exceeds depreciation in the period.

Capital outlays	\$ 30,109,146	
Depreciation expense	<u>(15,886,161)</u>	
Net Expense Adjustment		14,222,985

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) 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). This year, special termination benefits earned exceeded amounts paid by \$1,213,097. Vacation earned was less than the amounts paid by \$111,213. (1,101,884)

Other postemployment benefits (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (2,817,993)

Proceeds received from general obligation bonds is a revenue, in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities. (10,000,000)

Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not 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 changes of the following balances:

Premium on bond issuance	(1,120,953)	
Amortization of debt premium	1,114,743	
Amortization of deferred charges on refunding	(987,014)	(993,224)

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

SADDLEBACK VALLEY 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, 2014

Payment of principal on long-term obligations 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	\$ 4,805,000
Public financing authority bonds	3,985,000

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 expenditure 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 additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds and certificates of participation increased by \$3,968,151 and second, \$486,184 of additional interest was accreted on the District's public financing authority bonds.

(4,454,335)

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 deficit of the Internal Service Fund is reported with governmental activities.

Change in Net Position of Governmental Activities

(194,874)
\$ 2,563,470

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	Business-Type Activities Enterprise Fund Community Recreation Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 760,960	\$ 28,103,199
Receivables	535,951	875,645
Due from other funds	276	247,156
Total Current Assets	1,297,187	29,226,000
Noncurrent Assets		
Furniture and equipment (net)	113,722	-
Total Assets	1,410,909	29,226,000
LIABILITIES		
Current Liabilities		
Accounts payable	315,255	1,373,203
Due to other funds	73,020	-
Unearned revenue	647,345	52,106
Current portion of long-term obligations	-	1,275,584
Total Current Liabilities	1,035,620	2,700,893
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	9,541,602
NET POSITION		
Net investment in capital assets	113,722	-
Restricted	-	16,983,505
Unrestricted	261,567	-
Total Net Position	\$ 375,289	\$ 16,983,505

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities Enterprise Fund Community Recreation Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 3,654,029	\$ 37,272,007
OPERATING EXPENSES		
Payroll costs	2,361,894	285,208
Supplies and materials	308,860	71,234
Facility rental	49,430	3,118
Other operating cost	887,188	37,786,372
Total Operating Expenses	3,607,372	38,145,932
Operating Income/(Loss)	46,657	(873,925)
NONOPERATING REVENUES		
Interest income	1,356	92,660
Transfers in	-	586,391
Total Nonoperating Revenues	1,356	679,051
Change in Net Position	48,013	(194,874)
Total Net Position - Beginning	327,276	17,178,379
Total Net Position - Ending	\$ 375,289	\$ 16,983,505

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities <u>Enterprise Fund</u> <u>Community</u> <u>Recreation Fund</u>	Governmental Activities - Internal <u>Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,705,444	\$ 36,741,214
Other operating cash receipts	1,123,970	121,821
Cash payments to other suppliers of goods or services	(331,504)	109,565
Cash payments to employees for services	(2,371,414)	(2,026,294)
Other operating cash payments	(858,830)	(38,225,295)
Net Cash Provided (Used) by Operating Activities	<u>267,666</u>	<u>(3,278,989)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from other funds	-	586,391
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(6,459)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,356	92,660
Net increase (decrease) in cash and cash equivalents	<u>262,563</u>	<u>(2,599,938)</u>
Cash and cash equivalents - Beginning	498,397	30,703,137
Cash and cash equivalents - Ending	<u>\$ 760,960</u>	<u>\$ 28,103,199</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income/(loss)	\$ 46,657	\$ (873,925)
Adjustments to reconcile operating income/(loss) to net cash provided (used) by operating activities:		
Depreciation	28,358	-
Changes in assets and liabilities:		
Receivables	160,421	(535,268)
Due from other funds	20,326	74,190
Accounts payable	26,786	183,917
Due to other fund	(9,520)	(1,741,086)
Unearned revenue	(5,362)	52,106
Claims liability	-	(438,923)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 267,666</u>	<u>\$ (3,278,989)</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 177	\$ 11,163,696
Receivables	2	26,497
Prepaid expenses	-	166,027
Stores inventories	-	40,704
Total Assets	<u>179</u>	<u>\$ 11,396,924</u>
LIABILITIES		
Accounts payable	-	\$ 244,268
Unearned revenue	-	83,578
Due to student groups	-	2,993,529
Due to bondholders	-	8,075,549
Total Liabilities	<u>-</u>	<u>\$ 11,396,924</u>
NET ASSETS		
Unreserved	<u>\$ 179</u>	

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION JUNE 30, 2014

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 26</u>
DEDUCTIONS	
Other expenditures	<u>7,506</u>
Change in Net Position	(7,480)
Net Position - Beginning	<u>7,659</u>
Net Position - Ending	<u><u>\$ 179</u></u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Saddleback Valley Unified School District (the District) was organized in 1973 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 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education 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 Saddleback Valley 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 are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below has 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 is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Saddleback Valley Unified School District Public Financing Authority (the Authority) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Authority was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Authority's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Bonds issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Authority.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The District established Community Facilities Districts (CFD) No. 88-1, 88-2, 89-1, 89-2, 89-3, and 89-4 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

Other Related Entities

Charter School The District has an approved Charter for Ralph A. Gates Elementary School (Charter No. 0157) pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the District's financial statements. The Charter School is not operated by a separate governing board and is considered a component unit of the District. The Charter School receives State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

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.

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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been 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 expenditures of \$16,282, \$13,410, \$500,687, and \$965,147, respectively.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Service Fund for Blended Component Units This fund is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under Generally Accepted Accounting Principles (GAAP).

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.

Special Education Pass-Through Fund The Special Education Pass-Through Fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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).

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.

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).

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 School 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.).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Capital Outlay Projects Fund 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 debt.

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).

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:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the recreational programs of the District.

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 health and welfare, property and liability, and workers' compensation programs accounted for in an internal service fund.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 is the Peter A. Hartman Memorial Scholarship Fund. 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 and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

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, and program revenues of the activities 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 allocates 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 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 balance 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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, 2014, 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.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental and agency funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

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 and expenses in the fiduciary funds when used.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; furniture, equipment, and vehicles, 5 to 20 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 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Bond Premiums

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2014, 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.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-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 \$66,980,977 of restricted net position, which is 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 charges for recreational service fees and to other funds for self-insurance. 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

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

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. Interfund transfers are eliminated in the governmental activities column of the statement of activities.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

New Accounting Pronouncements

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.

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:

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

- 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.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 131,772,339
Business-type activities	760,960
Fiduciary funds	11,163,873
Total Deposits and Investments	<u>\$ 143,697,172</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 3,406,269
Cash in revolving	2,781,833
Investments	137,509,070
Total Deposits and Investments	<u>\$ 143,697,172</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.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

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 Orange County Investment Pool and purchasing 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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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:

Investment Type	Amount Reported	Fair Value	Average Maturity in Days/ Maturity Date
Orange County Investment Pool	\$ 125,014,571	\$ 125,065,570	519 days
Federated Treasury Obligations Fund	7,105,082	7,105,082	45 days
AIG Matched Funding Corporation Investment Agreement	1,302,377	1,302,377	09/01/20
Bayerische Investment Agreement	1,138,550	1,138,550	09/01/17
Societe Generale Investment Agreement	2,948,490	2,948,490	09/01/20
Total	<u>\$ 137,509,070</u>	<u>\$ 137,560,069</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. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Investment Pool has been rated AAAM by Standard & Poor's Investor Service as of June 30, 2014. The investment in Federated Treasury Obligations Fund and the investment in the Federated Tax Free Obligations Fund have been rated Aaa-mf by Moody's Investor Service as of June 30, 2014. The investment in AIG Matched Funding Corporation Investment Agreement has been rated Baa1 by Moody's Investor Service as of June 30, 2014. The investment in Bayerische Investment Agreement has been rated Aaa by Moody's Investor Service as of June 30, 2014. The investment in Societe Generale Investment Agreement has been rated A-2 by Moody's Investor Service as of June 30, 2014.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government code*. Investments in any one issuer that represent five percent or more of the total investments are in either an external investment pool or mutual funds and are therefore exempt.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, the District's bank balance of \$4,190,648 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.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in AIG Matching Funding Corporation Investment Agreement of \$1,302,377, Bayerische Investment Agreement of \$1,138,550, and Societe Generale Investment Agreement of \$2,948,490, the District has a custodial credit risk exposure of \$5,389,417 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
Federal Government							
Categorical aid	\$ 3,062,481	\$ -	\$ 644,345	\$ -	\$ 3,706,826	\$ -	\$ -
State Government							
LCFF principal apportionment	9,740,251	-	323,429	-	10,063,680	-	-
Categorical aid	3,611,713	-	18,895	-	3,630,608	-	-
Lottery	2,460,883	-	-	-	2,460,883	-	-
Special education	857,657	-	61,399	-	919,056	-	-
Local Government							
Interest occupational program (ROP)	24,936	-	11,691	9,244	45,871	154	-
	545,556	-	-	-	545,556	-	-
Other Local Sources	1,253,482	22,990,320	221,730	866,401	25,331,933	535,797	26,499
Total	<u>\$ 21,556,959</u>	<u>\$ 22,990,320</u>	<u>\$ 1,281,489</u>	<u>\$ 875,645</u>	<u>\$ 46,704,413</u>	<u>\$ 535,951</u>	<u>\$ 26,499</u>

The \$22,990,320 included above in the Debt Service Fund for Blended Component Units will be paid to the public financing authority bonds (PFA) from special taxes on parcels of taxable property within the CFD used to pay the principal and interest on the bonds. The payments will continue through the life of the refinanced bonds.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 39,487,653	\$ -	\$ -	\$ 39,487,653
Construction in progress	4,524,036	16,619,586	2,508,269	18,635,353
Depreciated	44,011,689	16,619,586	2,508,269	58,123,006
Capital Assets Being Depreciated:				
Land improvements	46,985,619	8,022,824	-	55,008,443
Buildings and improvements	418,932,366	7,395,151	-	426,327,517
Furniture and equipment	25,150,927	579,854	100,677	25,630,104
Total Capital Assets Being Depreciated	491,068,912	15,997,829	100,677	506,966,064
Total Capital Assets	535,080,601	32,617,415	2,608,946	565,089,070
Less Accumulated Depreciation:				
Land improvements	18,497,154	1,974,098	-	20,471,252
Buildings and improvements	138,538,644	12,685,227	-	151,223,871
Furniture and equipment	17,647,733	1,226,836	100,677	18,773,892
Total Accumulated Depreciation	174,683,531	15,886,161	100,677	190,469,015
Governmental Activities Capital Assets, Net	\$ 360,397,070	\$ 16,731,254	\$ 2,508,269	\$ 374,620,055
Business-Type Activities				
Capital Assets Being Depreciated:				
Buildings and improvements	\$ 500,000	\$ -	\$ -	\$ 500,000
Furniture and equipment	59,020	6,459	-	65,479
Total Capital Assets Being Depreciated	559,020	6,459	-	565,479
Less Accumulated Depreciation:				
Buildings and improvements	377,856	25,000	-	402,856
Furniture and equipment	45,543	3,358	-	48,901
Total Accumulated Depreciation	423,399	28,358	-	451,757
Business-Type Activities Capital Assets, Net	\$ 135,621	\$ (21,899)	\$ -	\$ 113,722

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

Governmental Activities		
Unallocated		\$ 15,886,161
Business-Type Activities		
Enterprise		\$ 28,358

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014, between major and non-major governmental funds, the non-major enterprise fund, and the internal service fund are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Community Recreation Enterprise Fund	
General Fund	\$ -	\$ 909,091	\$ 69,898	\$ 978,989
Non-Major Governmental Funds	83,450	555	-	84,005
Community Recreation Enterprise Fund	-	276	-	276
Internal Service Fund	230,884	13,150	3,122	247,156
Total	\$ 314,334	\$ 923,072	\$ 73,020	\$ 1,310,426

A balance of \$67,559 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$483,458 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$358,074 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$69,898 due to the General Fund from the Community Recreation Fund resulted from indirect costs paid.

A balance of \$230,884 due to the Internal Service Fund from the General Fund resulted from insurance premiums for health and welfare.

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Operating Transfers

Interfund transfers for the year ended June 30, 2014 consisted of the following:

<u>Transfer To</u>	<u>Transfer From General Fund</u>
Internal Service Funds	<u>\$ 586,391</u>

The General Fund transferred to the Internal Service Fund for program reimbursement costs.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
Vendor payables	\$ 1,097,993	\$ 200,925	\$ 188,770	\$ 1,487,688	\$ 76,637	\$ -
LCFF principal apportionment	548,017	-	-	548,017	-	-
Salaries and benefits	7,865,605	981,902	1,184,433	10,031,940	192,630	-
Books and supplies	526,908	-	-	526,908	-	-
Construction	-	1,618,862	-	1,618,862	-	-
Services and other operating payables	2,390,622	652,900	-	3,043,522	45,988	244,268
Regional occupation program (ROP)	602,259	-	-	602,259	-	-
Total	<u>\$ 13,031,404</u>	<u>\$ 3,454,589</u>	<u>\$ 1,373,203</u>	<u>\$ 17,859,196</u>	<u>\$ 315,255</u>	<u>\$ 244,268</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
State categorical aid	\$ 31,473	\$ -	\$ -	\$ 31,473	\$ -	\$ -
Other local	33,817	624,335	52,106	710,258	647,345	83,578
Total	<u>\$ 65,290</u>	<u>\$ 624,335</u>	<u>\$ 52,106</u>	<u>\$ 741,731</u>	<u>\$ 647,345</u>	<u>\$ 83,578</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 121,645,000	\$ 10,000,000	\$ 4,805,000	\$ 126,840,000	\$ 4,600,000
Premium on issuance	15,002,641	1,120,953	1,114,743	15,008,851	-
Public Financing Authority Bonds	30,137,659	486,184	3,985,000	26,638,843	4,315,000
Compensated absences	2,335,213	-	111,213	2,224,000	-
Supplemental employment retirement plan (SERP)	6,968,449	1,617,132	404,035	8,181,546	410,769
Other postemployment benefits (OPEB)	13,438,131	7,154,409	4,336,416	16,256,124	-
Claims liability	11,256,109	22,306,317	22,745,240	10,817,186	1,275,584
	<u>\$ 200,783,202</u>	<u>\$ 42,684,995</u>	<u>\$ 37,501,647</u>	<u>\$ 205,966,550</u>	<u>\$ 10,601,353</u>

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the public financing authority bonds are made in the Debt Service Fund for Blended Component Units. The accrued vacation will be paid by the fund for which the employees worked. Supplemental early retirement plan will be paid by the General Fund. Other postemployment benefits are generally paid by the General Fund. The claims liability is paid from the Internal Service Fund.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2013	Issued	Redeemed	Outstanding June 30, 2014
08/12/04	08/01/29	2.0-6.0%	\$ 100,000,000	\$ 4,005,000	\$ -	\$ 1,880,000	\$ 2,125,000
01/24/07	08/01/30	3.5-5.0%	60,000,000	45,775,000	-	1,710,000	44,065,000
05/09/13	08/01/29	2.0-5.0%	71,865,000	71,865,000	-	1,215,000	70,650,000
09/26/13	08/01/29	2.0-5.0%	10,000,000	-	10,000,000	-	10,000,000
				<u>\$ 121,645,000</u>	<u>\$ 10,000,000</u>	<u>\$ 4,805,000</u>	<u>\$ 126,840,000</u>

2004 Election General Obligation Bonds, Series 2004A

On August 12, 2004, the District issued the \$100,000,000 2004 Election General Obligation Bonds, Series 2004A. The 2004 Series A bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 6.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction or modernization of some or all of the schools within the District. During 2012-2013, a portion of the bonds were refunded with the proceeds from the 2013 General Obligation Refunding Bonds. At June 30, 2014, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2004A was \$2,125,000. Unamortized premium received on issuance of the bonds amounted to \$143,883 as of June 30, 2014.

2004 Election General Obligation Bonds, Series 2007A

On January 24, 2007, the District issued the \$60,000,000 2004 Election General Obligation Bonds, Series 2007A. The 2007 Series A were issued as current interest bonds, and have a final maturity to occur on August 1, 2030. Interest rates on the bonds range from of 3.50 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction or modernization of some or all of the schools within the District. At June 30, 2014, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2007A was \$44,065,000. Unamortized premium received on issuance of the bonds amounted to \$1,331,102 as of June 30, 2014.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2011 General Obligation Refunding Bonds

On May 9, 2013, the District issued the \$71,865,000 2011 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. The net proceeds of \$84,632,985 (representing the principal amount of \$71,865,000 plus premium on issuance of \$13,296,488 minus cost of issuance of \$528,503) from the issuance were used to advance refund a portion of the District's 2004 Election General Obligation Bonds, Series 2004A, with the final prepayment to occur August 1, 2013, and to pay the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$5,397,453 remain to be amortized using the straight-line method. The refunding resulted in a cumulative cash flow saving of \$13,670,278 over the life of the new debt and an economic gain of \$11,118,743 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.398 percent.

At June 30, 2014, the principal balance outstanding of the 2011 General Obligation Refunding Bonds was \$70,650,000. Unamortized premium received on issuance of the bonds amounted to \$12,465,458 as of June 30, 2014.

2004 Election General Obligation Bonds, Series 2013A

On September 26, 2013, the District issued the \$10,000,000 2004 Election General Obligation Bonds, Series 2013A. The 2013 Series A were issued current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction or modernization of some or all of the schools within the District. At June 30, 2014, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2013A was \$10,000,000. Unamortized premium received on issuance of the bonds amounted to \$1,068,408 as of June 30, 2014.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Current Interest	Total
2015	\$ 4,600,000	\$ 9,667,002	\$ 14,267,002
2016	4,970,000	5,603,606	10,573,606
2017	5,305,000	5,430,631	10,735,631
2018	4,835,000	5,258,931	10,093,931
2019	5,240,000	5,061,206	10,301,206
2020-2024	34,090,000	21,104,341	55,194,341
2025-2029	51,300,000	10,685,138	61,985,138
2030-2031	16,500,000	559,488	17,059,488
Total	\$ 126,840,000	\$ 63,370,343	\$ 190,210,343

Public Financing Authority Bonds

The Public Financing Authority (PFA) was created to obtain economies of scale by refinancing the Community Facilities Districts (CFD) debt. PFA 95 refinanced the debt for CFD 88-2, 89-1, and 89-4. PFA 96 refinanced the debt for CFD 88-1, 89-2 and 89-3. PFA 98 refinanced the debt for CFD 88-1, 89-2, 89-3 and 89-4.

The outstanding debt incurred through bonds issued in connection with the PFA at June 30, 2014 is as follows:

Issue Reference	Original Issue	PFAs			PFAs
		Outstanding July 1, 2013	Accreted	Redeemed	Outstanding June 30, 2014
PFA 95	\$ 16,265,000	\$ 5,165,000	\$ -	\$ 1,230,000	\$ 3,935,000
PFA 96	29,484,918	17,257,659	486,184	2,025,000	15,718,843
PFA 98	13,705,000	7,715,000	-	730,000	6,985,000
		\$ 30,137,659	\$ 486,184	\$ 3,985,000	\$ 26,638,843

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

The annual requirements to amortize the bonds issued in connection with the PFA outstanding as of June 30, 2014 are as follows:

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Interest	Total
2015	\$ 4,315,000	\$ -	\$ 860,653	\$ 5,175,653
2016	4,590,000	-	610,246	5,200,246
2017	4,395,000	-	357,185	4,752,185
2018	3,862,142	512,858	191,590	4,566,590
2019	3,171,147	653,853	127,418	3,952,418
2020-2023	6,305,554	1,734,446	105,688	8,145,688
Total	<u>\$ 26,638,843</u>	<u>\$ 2,901,157</u>	<u>\$ 2,252,780</u>	<u>\$ 31,792,780</u>

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2014, amounted to \$2,224,000.

Supplemental Employment Retirement Plan

The District entered into an agreement for a supplemental retirement benefits plan for certain certificated employees of the District. Eligibility requirements are that employees must have no less than 20 years of service with the District, must be 55 years of age, terminated employment with the District, applied for benefits under this plan, and must have retired under CalSTRS as of or before June 30 of the year of plan offering. The agreement called for the District to make annual payments into an annuity contract for the life of the retirees and their named beneficiaries. The District is funding the contract on a "pay-as-you-go" and therefore, 25 years may not be sufficient to completely fund all benefits. The total obligation is adjusted by an actuarial calculation. At June 30, 2014, the District has an outstanding balance of \$8,181,546, using a discount factor of six percent.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$7,477,108, and contributions made by the District during the year were \$4,336,416. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$638,311 and (\$961,010), respectively, which resulted in an increase to the net OPEB obligation of \$2,817,993. As of June 30, 2014, the net OPEB obligation was \$16,256,124. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 workers' compensation, and health and welfare claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2014, amount to \$10,817,186, using a discount factor of 1.2 percent.

NOTE 9 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$22,990,320 as of June 30, 2014, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Debt Service Fund For Blended Component Unit	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 120,000	\$ -	\$ 431,833	\$ 551,833
Stores inventories	354,168	-	28,010	382,178
Prepaid expenditures	511,728	-	37,034	548,762
Total Nonspendable	985,896	-	496,877	1,482,773
Restricted				
Legally restricted programs	6,881,263	-	-	6,881,263
Cafeteria program	-	-	430,000	430,000
Capital projects	-	-	17,222,953	17,222,953
Debt services	-	27,407,547	8,667,393	36,074,940
Total Restricted	6,881,263	27,407,547	26,320,346	60,609,156
Committed				
Adult education program	-	-	54,240	54,240
Capital projects	-	-	48,778	48,778
Total Committed	-	-	103,018	103,018
Assigned				
Deferred maintenance	13,413	-	-	13,413
Capital projects	-	-	8,861,912	8,861,912
Other program balances	1,585,949	-	2,842,330	4,428,279
Total Assigned	1,599,362	-	11,704,242	13,303,604
Unassigned				
Reserve for economic uncertainties	6,704,845	-	-	6,704,845
Remaining unassigned	50,875,422	-	-	50,875,422
Total Unassigned	57,580,267	-	-	57,580,267
Total	\$ 67,046,788	\$ 27,407,547	\$ 38,624,483	\$ 133,078,818

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Saddleback Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 300 retirees and beneficiaries currently receiving benefits and 1,717 active plan members.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (SVEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013-2014, the District contributed \$4,336,416 to the Plan, all of which was used for current premiums (approximately 100 percent of total premiums).

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (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	\$ 7,477,108
Interest on net OPEB obligation	638,311
Adjustment to annual required contribution	<u>(961,010)</u>
Annual OPEB cost (expense)	7,154,409
Contributions made	<u>(4,336,416)</u>
Increase in net OPEB obligation	2,817,993
Net OPEB obligation, beginning of year	<u>13,438,131</u>
Net OPEB obligation, end of year	<u><u>\$ 16,256,124</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:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 8,047,520	\$ 5,924,315	74%	\$ 10,947,547
2013	7,795,650	5,305,066	68%	13,438,131
2014	7,154,409	4,336,416	61%	16,256,124

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Funded Status and Funding Progress

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

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)
June 1, 2013	\$ -	\$ 61,231,696	\$ 61,231,696	0%	\$ 142,503,976	43%

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 June 1, 2013, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five 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 ranged from an initial ten percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2014, was 24 years. The actuarial value of assets was not determined in this actuarial valuation.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a \$1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to \$5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 15 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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 represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2012	\$ 3,109,234	\$ 8,250,235	\$ -	\$ 11,359,469
Claims and changes in estimates	21,923,758	1,839,916	1,161,010	24,924,684
Claims payments	(22,226,883)	(1,640,151)	(1,161,010)	(25,028,044)
Liability Balance, June 30, 2013	2,806,109	8,450,000	-	11,256,109
Claims and changes in estimates	19,763,689	1,275,584	1,267,044	22,306,317
Claims payments	(20,202,612)	(1,275,584)	(1,267,044)	(22,745,240)
Liability Balance, June 30, 2014	\$ 2,367,186	\$ 8,450,000	\$ -	\$ 10,817,186
Assets available to pay claims at June 30, 2014	\$ 14,281,772	\$ 14,456,297	\$ 487,931	\$ 29,226,000

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CALSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$9,247,032, \$9,209,910, and \$8,933,608, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,481,427, \$3,476,675, and \$3,251,294, respectively, and equal 100 percent of the required contributions for each year.

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 \$6,168,479 (5.541 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 14 - 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, 2014.

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, 2014.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Trabuco Hills High - School Modernization	\$ 873,017	7/1/14
Laguna Hills High School - Gym Bleacher Repair	18,975	7/8/14
District Office - Lodge Pole Fencing	16,154	7/31/14
Laguna Hills High School - Gym Floor Refurbish	34,505	8/18/14
Del Lago Elementary School - Portables Upgrade	16,383	9/5/14
Laguna Hills High School - Gym Ceiling Tiles Replacement	49,000	9/5/14
El Toro High School - Gym Floor Refurbish	29,613	9/25/14
El Toro High School - Gym Painting	46,625	9/25/14
District Wireless Upgrade	76,770	9/30/14
District Security Camera Project	88,223	10/20/14
Laguna Hills High School - Field Renovations	2,543,754	11/17/14
El Toro High School - Lighting and Bleacher	16,257	12/31/14
Community Services Building Modernization	105,596	2/1/15
Mission Viejo High School - Partial Modernization	118,868	12/30/15
	<u>\$ 4,033,740</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage. The District participates in the Coastline Regional Occupational Program (CROP) for the occupational training for high school students and adults residing within the District boundaries. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2014, the District made payments of \$1,910,183 and \$104,153 to ASCIP and SELF, respectively for property and liability coverage.

REQUIRED SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 157,122,922	\$ 190,375,679	\$ 191,041,350	\$ 665,671
Federal sources	9,986,587	10,443,990	9,806,581	(637,409)
Other State sources	50,969,235	31,291,034	37,193,257	5,902,223
Other local sources	2,659,529	3,737,318	4,152,695	415,377
Total Revenues ¹	220,738,273	235,848,021	242,193,883	6,345,862
EXPENDITURES				
Current				
Certificated salaries	111,309,102	113,266,745	112,848,518	418,227
Classified salaries	29,359,623	30,998,849	29,759,868	1,238,981
Employee benefits	51,231,219	46,933,362	52,317,803	(5,384,441)
Books and supplies	5,068,898	10,011,512	6,741,494	3,270,018
Services and operating expenditures	20,378,068	23,687,072	21,653,371	2,033,701
Other outgo	4,146,909	5,397,585	5,397,585	-
Capital outlay	288,404	439,749	1,323,431	(883,682)
Total Expenditures ¹	221,782,223	230,734,874	230,042,070	692,804
Excess (Deficiency) of Revenues Over Expenditures	(1,043,950)	5,113,147	12,151,813	7,038,666
Other Financing Sources (Uses)				
Transfers in	433,463	-	-	-
Transfers out	(500,000)	(586,391)	(586,391)	-
Net Financing Sources (Uses)	(66,537)	(586,391)	(586,391)	-
NET CHANGE IN FUND BALANCES	(1,110,487)	4,526,756	11,565,422	7,038,666
Fund Balances - Beginning	55,481,366	55,481,366	55,481,366	-
Fund Balances - Ending	\$ 54,370,879	\$ 60,008,122	\$ 67,046,788	\$ 7,038,666

¹ On behalf payments of \$6,168,479 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 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, however is not included in the original and final General Fund budgets.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2014**

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)
May 1, 2009	\$ -	\$ 62,728,650	\$ 62,728,650	0%	\$ 145,289,791	43%
May 1, 2011	-	69,499,969	69,499,969	0%	141,776,020	49%
June 1, 2013	-	61,231,696	61,231,696	0%	142,503,976	43%

SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Teaching American History	84.215X	[1]	\$ 142,052
Passed through California Department of Education (CDE):			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education & ESL	84.002A	14508	38,072
Adult Basic Education & Civics Education	84.002A	14109	10,000
Adult Secondary Education	84.002A	13978	1,013
Total Adult Education - Basic Grants to States Cluster			<u>49,085</u>
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected	84.010	14329	2,346,633
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	15,770
Title II, Part A Cluster:			
Title II, Part A - Improving Teacher Quality	84.367	14341	409,150
Title II, Part A - Administrator Training	84.367	14344	3,000
Total Title II, Part A Cluster			<u>412,150</u>
Title III, Immigrant and Limited English Proficiency Program Cluster:			
Title III, Immigrant Education Program	84.365	14346	65,471
Title III, Limited English Proficiency	84.365	10084	442,334
Total Title III, Immigrant and Limited English Proficiency Program Cluster			<u>507,805</u>
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	5,006,268
Local Assistance Private Schools ISP	84.027	10115	14,352
Federal Preschool	84.173	13430	150,634
Preschool Local Entitlement	84.027A	13682	302,932
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	369,693
Preschool Staff Development	84.173A	13431	20
Total Special Education (IDEA) Cluster			<u>5,843,899</u>
Early Intervention Grants	84.181	23761	29,858
Carl D. Perkins Vocational and Technical Education Act			
Secondary Education	84.048	14894	161,330
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.158	10006	523,342
Total U.S. Department of Education			<u>10,031,924</u>

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014**

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:			
National School Lunch Program	10.555	13396	\$ 2,768,456
Especially Needy Breakfast Program	10.553	13390	572,777
Commodities	10.555	13389	408,408
Total Child Nutrition Cluster			<u>3,749,641</u>
Forest Reserve	10.665	10044	26,939
Total U.S. Department of Agriculture			<u>3,776,580</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medical Assistance Program:			
Medi-Cal Billing Option	93.778	10013	323,884
Total U.S. Department of Health and Human Services			<u>323,884</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant - Child Care, City of Lake Forest	14.218	[1]	7,505
Community Development Block Grant - Child Care, City of Mission Viejo	14.218	[1]	8,868
Total U.S. Department of Housing and Urban Development			<u>16,373</u>
Total Expenditures of Federal Awards			<u><u>\$ 14,148,761</u></u>

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

The Saddleback Valley Unified School District was organized in July 1, 1973, and consists of an area comprising approximately 93 square miles. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dennis Walsh	President	2014
Don Sedgwick	Vice President	2016
Suzie R. Swartz	Clerk	2014
Ginny Fay Aitkens	Member	2016
Dolores Winchell	Member	2016

ADMINISTRATION

Clint Harwick, Ed.D.	Superintendent
Geri Partida	Assistant Superintendent, Business Services
Kathy Dick	Assistant Superintendent, Educational Services
Terry Stanfill	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,432.61	7,426.92
Fourth through sixth	6,093.13	6,080.89
Seventh and eighth	4,346.39	4,337.48
Ninth through twelfth	9,762.60	9,698.62
Total Regular ADA	<u>27,634.73</u>	<u>27,543.91</u>
Extended Year Special Education		
Transitional kindergarten through third	20.49	20.49
Fourth through sixth	12.47	12.47
Seventh and eighth	7.94	7.94
Ninth through twelfth	23.15	23.15
Total Extended Year Special Education	<u>64.05</u>	<u>64.05</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.57	2.12
Fourth through sixth	2.19	2.28
Seventh and eighth	2.32	2.34
Ninth through twelfth	15.70	15.15
Total Special Education, Nonpublic, Nonsectarian Schools	<u>21.78</u>	<u>21.89</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.08	0.08
Fourth through sixth	0.12	0.12
Seventh and eighth	0.74	0.74
Ninth through twelfth	5.16	5.16
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>6.10</u>	<u>6.10</u>
Total ADA	<u><u>27,726.66</u></u>	<u><u>27,635.95</u></u>
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	609.99	608.50
Fourth through sixth	382.24	382.81
Total Regular ADA	<u>992.23</u>	<u>991.31</u>
Classroom based ADA		
Transitional kindergarten through third	609.99	608.50
Fourth through sixth	382.24	382.80
Total Classroom Based ADA	<u>992.23</u>	<u>991.30</u>

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87	Reduced 1986-87	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,000	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,400	180	-	Complied
Grade 2			50,400	180	-	Complied
Grade 3			50,400	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			54,000	180	-	Complied
Grade 5			54,000	180	-	Complied
Grade 6			54,000	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			59,210	180	-	Complied
Grade 8			59,210	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			70,060	180	-	Complied
Grade 10			70,060	180	-	Complied
Grade 11			70,060	180	-	Complied
Grade 12			70,060	180	-	Complied

Gates Charter School

Grade Level	1986-87	Reduced 1986-87	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	34,971	36,000	180	-	Complied
Grades 1 - 3	50,400	48,960				
Grade 1			50,496	180	-	Complied
Grade 2			50,496	180	-	Complied
Grade 3			50,496	180	-	Complied
Grades 4 - 6	54,000	52,457				
Grade 4			54,096	180	-	Complied
Grade 5			54,096	180	-	Complied
Grade 6			54,096	180	-	Complied

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND⁵				
Revenues	\$ 240,626,523	\$ 241,693,196	\$ 230,214,571	\$ 230,657,781
Other sources	-	-	182,275	-
Total Revenues and Other Sources	240,626,523	241,693,196	230,396,846	230,657,781
Expenditures	238,994,289	229,076,923	227,046,502	219,053,327
Other uses and transfers out	-	586,391	500,000	-
Total Expenditures and Other Uses	238,994,289	229,663,314	227,546,502	219,053,327
INCREASE IN FUND BALANCE	\$ 1,632,234	\$ 12,029,882	\$ 2,850,344	\$ 11,604,454
ENDING FUND BALANCE	\$ 68,665,612	\$ 67,033,378	\$ 55,003,496	\$ 52,153,152
AVAILABLE RESERVES²	\$ 62,397,331	\$ 57,580,267	\$ 46,621,510	\$ 43,015,648
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	26.11%	25.76%	21.02%	19.64%
LONG-TERM OBLIGATIONS	N/A	\$ 205,966,550	\$ 200,783,202	\$ 195,081,822
K-12 AVERAGE DAILY ATTENDANCE AT P-2⁴	27,819	28,719	29,208	29,846

The General Fund balance has increased by \$14,880,226 over the past two years. The fiscal year 2014-2015 budget projects a further increase of \$1,632,234 (2.4 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 surpluses in all of the past three years and anticipates incurring an operating surplus during the 2014-2015 fiscal year. Total long-term obligations have increased by \$10,884,728 over the past two years.

Average daily attendance has decreased by 1,127 over the past two years. An additional decline of 900 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 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 \$6,168,479 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2014.

⁴ Average daily attendance includes Gates Charter School.

⁵ General Fund amounts do not include activity related to the consolidation of Fund 14, Deferred Maintenance.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Gates Charter School (0157)	Yes

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
ASSETS					
Deposits and investments	\$ -	\$ 140,451	\$ 4,276,251	\$ 862,831	\$ 7,195,001
Receivables	655,733	56,565	142,637	339,514	2,964
Due from other funds	-	7,578	13,905	62,522	-
Prepaid expenses	-	-	31,323	486	5,225
Stores inventories	-	-	-	28,010	-
Total Assets	<u>\$ 655,733</u>	<u>\$ 204,594</u>	<u>\$ 4,464,116</u>	<u>\$ 1,293,363</u>	<u>\$ 7,203,190</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 655,733	\$ 78,675	\$ 588,060	\$ 361,847	\$ 956,955
Due to other funds	-	69,019	491,675	362,073	305
Unearned revenue	-	2,660	510,728	110,947	-
Total Liabilities	<u>655,733</u>	<u>150,354</u>	<u>1,590,463</u>	<u>834,867</u>	<u>957,260</u>
Fund Balances:					
Nonspendable	-	-	31,323	28,496	5,225
Restricted	-	-	-	430,000	6,240,705
Committed	-	54,240	-	-	-
Assigned	-	-	2,842,330	-	-
Total Fund Balances	<u>-</u>	<u>54,240</u>	<u>2,873,653</u>	<u>458,496</u>	<u>6,245,930</u>
Total Liabilities and Fund Balances	<u>\$ 655,733</u>	<u>\$ 204,594</u>	<u>\$ 4,464,116</u>	<u>\$ 1,293,363</u>	<u>\$ 7,203,190</u>

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 10,733,885	\$ 245,739	\$ 9,640,642	\$ 433,748	\$ 8,667,393	\$ 42,195,941
6,540	86	3,349	74,101	-	1,281,489
-	-	-	-	-	84,005
-	-	-	-	-	37,034
-	-	-	-	-	28,010
<u>\$ 10,740,425</u>	<u>\$ 245,825</u>	<u>\$ 9,643,991</u>	<u>\$ 507,849</u>	<u>\$ 8,667,393</u>	<u>\$ 43,626,479</u>
\$ 3,988	\$ 14	\$ 782,079	\$ 27,238	\$ -	\$ 3,454,589
-	-	-	-	-	923,072
-	-	-	-	-	624,335
<u>3,988</u>	<u>14</u>	<u>782,079</u>	<u>27,238</u>	<u>-</u>	<u>5,001,996</u>
-	-	-	431,833	-	496,877
10,736,437	245,811	-	-	8,667,393	26,320,346
-	-	-	48,778	-	103,018
-	-	8,861,912	-	-	11,704,242
<u>10,736,437</u>	<u>245,811</u>	<u>8,861,912</u>	<u>480,611</u>	<u>8,667,393</u>	<u>38,624,483</u>
<u>\$ 10,740,425</u>	<u>\$ 245,825</u>	<u>\$ 9,643,991</u>	<u>\$ 507,849</u>	<u>\$ 8,667,393</u>	<u>\$ 43,626,479</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
REVENUES					
Local Control Funding Formula	\$ -	\$ 500,000	\$ -	\$ -	\$ -
Federal sources	527,081	49,085	16,373	3,749,641	-
Other State sources	1,666,480	7,578	-	248,706	-
Other local sources	-	220,074	8,449,994	2,224,849	48,964
Total Revenues	<u>2,193,561</u>	<u>776,737</u>	<u>8,466,367</u>	<u>6,223,196</u>	<u>48,964</u>
EXPENDITURES					
Current					
Instruction	-	810,731	-	-	-
Instruction-related activities:					
Supervision of instruction	-	84,731	-	-	-
School site administration	-	225,423	-	-	-
Pupil services:					
Food services	-	-	-	5,979,439	-
All other pupil services	-	69,750	-	-	-
Administration:					
All other administration	-	66,860	-	295,793	-
Plant services	-	43,913	10,228	83,811	-
Facility acquisition and construction	-	-	616,044	-	13,930,763
Community services	-	-	7,736,849	-	-
Other outgo	2,193,561	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	<u>2,193,561</u>	<u>1,301,408</u>	<u>8,363,121</u>	<u>6,359,043</u>	<u>13,930,763</u>
Excess (Deficiency) of					
Revenues Over Expenditures	<u>-</u>	<u>(524,671)</u>	<u>103,246</u>	<u>(135,847)</u>	<u>(13,881,799)</u>
Other Financing Sources					
Other sources - proceeds from refunding bonds	-	-	-	-	9,775,000
NET CHANGE IN FUND BALANCES	-	(524,671)	103,246	(135,847)	(4,106,799)
Fund Balances - Beginning	-	578,911	2,770,407	594,343	10,352,729
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 54,240</u>	<u>\$ 2,873,653</u>	<u>\$ 458,496</u>	<u>\$ 6,245,930</u>

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,000
-	-	-	-	-	4,342,180
-	-	-	-	109,187	2,031,951
8,192,974	7,649	2,146,812	433,287	10,119,698	31,844,301
8,192,974	7,649	2,146,812	433,287	10,228,885	38,718,432
-	-	-	-	-	810,731
-	-	-	-	-	84,731
-	-	-	-	-	225,423
-	-	-	-	-	5,979,439
-	-	-	-	-	69,750
-	-	-	-	225,000	587,653
-	-	8,093	-	-	146,045
211,600	8,096,825	7,242,081	644,472	-	30,741,785
-	-	-	-	-	7,736,849
-	-	-	-	-	2,193,561
-	-	-	-	4,805,000	4,805,000
-	2,193	-	-	4,724,474	4,726,667
211,600	8,099,018	7,250,174	644,472	9,754,474	58,107,634
7,981,374	(8,091,369)	(5,103,362)	(211,185)	474,411	(19,389,202)
-	-	-	-	1,345,953	11,120,953
7,981,374	(8,091,369)	(5,103,362)	(211,185)	1,820,364	(8,268,249)
2,755,063	8,337,180	13,965,274	691,796	6,847,029	46,892,732
\$ 10,736,437	\$ 245,811	\$ 8,861,912	\$ 480,611	\$ 8,667,393	\$ 38,624,483

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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.

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 1986-87 requirements, as required by *Education Code* Section 46201.

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.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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.

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
Saddleback Valley Unified School District
Mission Viejo, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Saddleback Valley Unified School District's basic financial statements, and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saddleback Valley 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 Saddleback Valley Unified School District in a separate letter dated December 9, 2014.

Purpose of This Report

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

VARRINCK TRINE, D.M. + W. W.P.

Rancho Cucamonga, California
December 9, 2014



**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
Saddleback Valley Unified School District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

We have audited Saddleback Valley Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Saddleback Valley Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Saddleback Valley 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 Saddleback Valley 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 Saddleback Valley 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 Saddleback Valley Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Saddleback Valley 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, 2014.

Report on Internal Control Over Compliance

Management of Saddleback Valley 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 Saddleback Valley 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 Saddleback Valley 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.

VAJRNK, TRNE, DM + W, WP

Rancho Cucamonga, California
December 9, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on State Compliance

We have audited Saddleback Valley Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Saddleback Valley Unified School District's State government programs as noted below for the year ended June 30, 2014.

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 Saddleback Valley 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. 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 Saddleback Valley 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 Saddleback Valley Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Saddleback Valley 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, 2014.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

VARRINCK TRAVE, DM + W, W

Rancho Cucamonga, California
December 9, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

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>None Reported</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 Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Low Income and Neglected</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 424,463</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in the 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.

State Award Findings

After School Education and Safety Program (ASES)

2013-1 40000

Criteria or Specific Requirements

According to *Education Code* Section 8483(a)(2), 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. Adequate documentation that supports attendance participation must be maintained by each site that documents students are attending the program as consistent with the early release policy.

Condition

There were some instances in which the total number of students reported on the monthly summaries did not agree to the total number of students served on the manual rosters. During the review of manual rosters, there were students that were absent on the manual rosters which were counted in the monthly summaries. As a result, a total of twelve students were overstated on the monthly summaries.

Questioned Costs

Under the provisions of the program, there were no questioned costs associated with the condition identified. However, for the sites tested, there were 12 of 8,907 total students served during the month of November 2012 for which attendance rosters did not match the monthly summary.

Context

The condition identified was determined through review of attendance records from the two sites tested. Manual sign out rosters were reviewed for each child's sign out time in order to determine daily participation. We reviewed the manual sign out rosters for the month of November 2012. In reviewing the sign in/out logs for Olivewood Elementary School and Ralph A. Gates Elementary School, we were able to determine the total number of students reported did not agree to the total number of students reported on the monthly summaries.

Effect

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483 (a)(1) for the 2012-2013 fiscal year for Olivewood Elementary School and Ralph A. Gates Elementary School because the report submitted to the CDE reflected inaccurate attendance information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Cause

It appears that the condition identified has materialized as a result of the site not following up to ensure total number of students participating as indicated on the manual rosters agree to the monthly summaries and to the attendance report that is submitted to the State.

Recommendation

Prior to submission of monthly attendance information, the District should ensure the monthly summaries agree to the attendance summaries by reviewing and recalculating the monthly attendance numbers reported per site. This will ensure that accurate information is being sent to the Department for reporting. This would allow the District to reduce and potentially eliminate future instances of non-compliance.

Current Status

Implemented.



Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

In planning and performing our audit of the financial statements of Saddleback Valley Unified School District, for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 9, 2014, on the government-wide financial statements of the District.

FIXED ASSETS

Observation

Financial statements prepared in accordance with GASB Statements 34 must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress". While the District does have an adequate method of tracking and monitoring its capital assets activities, a reconciliation between the items scanned at various locations and the items reported in the fixed asset module is not performed. The District's capital assets reported on the government-wide statements can easily be subject to misstatements.

Recommendation

We recommend the District enforce the current inventory policy requiring personnel to perform a fixed asset inventory and reconcile the items with the reported assets in the fixed asset module.

ASSOCIATED STUDENT BODY FUNDS

Laguna Hills HS

Observations

During our review of ASB procedures, the following issues were noted:

1. The site does not maintain a cash receipt log, which is necessary to verify proper receipt of monies and that those monies are being deposited in sequential order. In addition, not all deposits had supporting documentation of monies collected from the students on behalf of the club fundraiser.
2. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
3. No ticket control log was being maintained prior to the audit date visit. The purpose of the ticket log is to account for all tickets on hand and used during the year since tickets equates to potential revenue.
4. Multiple club accounts are operating with a negative fund balance. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have actually spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.
5. The site perpetual inventory log is currently not being properly maintained.
6. Deposits were not made on a timely basis. For both of the student store closeouts tested, the deposits were made after 2-3 weeks.

Recommendations

1. In order to safe guard cash, pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. The revenue potential form is a vital internal control tool as it documents the revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise and problems with collecting all moneys.
3. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.
4. The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the groups account.

5. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
6. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely.

Los Alisos Intermediate School

Observations

During our review of associated student body procedures, the following issues were noted:

1. A receipt is not written for all cash received from individuals when collecting monies.
2. The site did not implement a procedure to document the preapproval of expenditures or document the preapproval of expenditures within ASB Minutes.
3. Five of the 14 disbursements reviewed lacked one or two of the three required approval signatures for disbursements.
4. A master ticket log and ticket sales recap form are not being utilized to account for all tickets on hand and used during the year.
5. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
6. During review of disbursements auditor noted "gift of public funds," as cash has been given to students as well as teachers during a fundraising event.

Recommendations

1. In order to safe guard cash, pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. The purpose of documenting the preapproval of expenditures is to ensure that the expenditure was approved by students and an administrator. It is imperative that an administrator reviews the expenditures prior to purchase to ensure that the expenditure is appropriate for students.
3. The site should review the cash disbursement procedures outlined in the Fiscal Crisis and Management Team (FCMAT) manual titled, "Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference." The manual explains that three signatures, these including a District representative, a student representative and an advisor, are required pursuant to California Educational Code Section 48933(5) (b) on all disbursements from a student body account.

4. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.
5. The revenue potential form is a vital internal control tool as it documents the revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise and problems with collecting all moneys.
6. Per provision in the California Constitution, Article 16, Section 6, prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency.

Silverado High School

Observations

During our review of associated student body procedures, the following issues were noted:

1. Receipts are not issued to teachers when submitting the monies that they have collected to the office manager for deposit.
2. Eight of 12 cash disbursements reviewed lacked preapproval.
3. The site does not maintain a perpetual inventory over "spirit wear" sold from the ASB.
4. The site does not utilize a fundraiser request form or revenue potential forms to document their fundraising activities. In addition, there is a lack of supporting documentation to document the collection of monies for Fundraising Event.
5. An inventory log is not maintained for gift cards and movie tickets that are given to students as an incentive.
6. The site is keeping a change fund but could not provide evidence of the Districts approval for the change fund. The Change Fund also lacks an established amount.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and Administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in. A receipt should be issued back to the teacher as proof that the monies were deposited intact.

Governing Board
Saddleback Valley Unified School District

2. The purpose of documenting the preapproval of expenditures is to ensure that the expenditure was approved by the administrators which the District has designated in charge of ASB funds. It is imperative that an administrator reviews the expenditures prior to purchase to ensure that the expenditure is allowed. The preapproval process ensures that deficit spending is not performed.
3. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count of Spirit Wear. A physical inventory should be taken at least once a year under the supervision of an advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.
4. Fundraisers should be approved by ASB prior to its engagement. This is essential as the ASB can evaluate whether or not there is sufficient funds to support the fundraiser and if it is appropriate. Additionally, it is recommended that fundraiser request forms and revenue potential forms are completed. Fundraiser request forms provide verification that the fundraiser has been approved by ASB and an appropriate administrator. Revenue potential forms improve the ability of the club to track their revenue and expenditures. Additionally, the clubs can use the revenue potential forms to reflect and evaluate the success of their fundraiser. This evaluation can help clubs develop strategies on improving their fundraiser for the next time they have it. When documenting the receipting of cash for a fundraiser there should be a copy of the receipt given to the teacher, a cash collection form indicating how much of each denomination of currency was collected, as well as documentation to support the cash collection form. Prior to selling items, perform a quick inventory count and document it on a form. While selling use a tally sheet to keep track of every time you sale an item. After the sale is over recount your inventory, the difference between your starting inventory counts to ending inventory count should equal the amount indicated on the tally form. Lastly, reconcile the cash to the tally sheet, any overages and shortages should be documented.
5. An inventory log should be maintained for these incentive items in order to improve the tracking of these items. Additionally, the log can assist in identifying any giftcard/movie ticket that is not accounted for. This can also reduce the risk of misappropriation of assets.
6. The site should have documentation showing that District approved for them to have a Change/Petty Cash Fund. This amount should be displayed on the sites year-end ASB Financial Statements. The lack of documentation of the change/petty cash fund results in the ASB assets being understated. In addition, the District needs to establish an amount for the fund, without an imprest amount there is a lack of control over the fund. Additionally, without a control over the change/petty cash fund, the risk of misappropriation of assets is increased.

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

VARRINEK, TRANE, DAN + LO, WP
Rancho Cucamonga, California
December 9, 2014