

ADELANTO SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013



ADELANTO SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2013
Table of Contents

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	40
Schedule of Funding Progress	41
Notes to the Required Supplementary Information	42

SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure	43
Schedule of Average Daily Attendance	44
Schedule of Instructional Time	45
Schedule of Financial Trends and Analysis.....	46
Schedule of Expenditures of Federal Awards	47
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	48
Schedule of Charter Schools	49
Note to the Supplementary Information.....	50

ADELANTO SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2013
Table of Contents

OTHER INDEPENDENT AUDITORS' REPORTS

Page

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance.....	53
Independent Auditors' Report on State Compliance	55

FINDINGS AND QUESTIONED COSTS

Schedule of Audit Findings and Questioned Costs:	
Summary of Auditors' Results	57
Current Year Audit Findings and Questioned Costs	58
Summary Schedule of Prior Audit Findings	61

Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adelanto School District
Adelanto, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 40, and schedule of funding progress on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



December 16, 2013

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2013

This discussion and analysis of Adelanto School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status declined from last year, as the net position decreased by 2.0% to \$190.9 million
- Total governmental revenues were \$63.1 million, \$3.8 million less than expenses.
- The total cost of basic programs was \$66.9 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$53.4 million.
- Average daily attendance (ADA) in grades K-8 decreased by 37, or 0.5%.

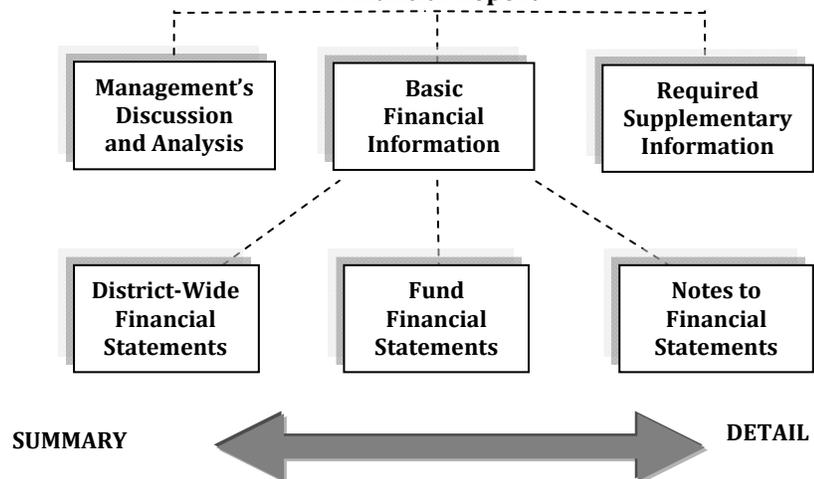
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

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



ADELANTO SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

ADELANTO SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2013, than it was the year before – decreasing 2.0% to \$190.9 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2013	2012*	
Current assets	\$ 55.2	\$ 79.4	\$ (24.2)
Capital assets	181.1	161.6	19.5
Total assets	236.3	241.0	(4.7)
Current liabilities	6.7	7.0	(0.3)
Long-term debt liabilities	38.7	39.3	(0.6)
Total liabilities	45.4	46.3	(0.9)
Net position			
Net investment in capital assets	161.8	141.4	20.4
Restricted	40.1	61.4	(21.3)
Unrestricted	(11.0)	(8.1)	(2.9)
Total net position	\$ 190.9	\$ 194.7	\$ (3.8)

* As restated

Changes in net position, governmental activities. The District's total revenues decreased 39.5% to \$63.1 million (See Table A-2). The decrease is due primarily to the District receiving a \$41.5 million state match for facilities in 2011-12.

The total cost of all programs and services increased 4.1% to \$66.9 million. The District's expenses are predominantly related to educating and caring for students, 74.3%. The purely administrative activities of the District accounted for just 5.4% of total costs. A significant contributor to the increase in costs was the restoration of furlough days.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2013	2012	
Total Revenues	\$ 63.1	\$ 104.3	\$ (41.2)
Total Expenses	66.9	64.3	2.6
Increase (decrease) in net position	\$ (3.8)	\$ 40.0	\$ (43.8)

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$48.9 million, which is below last year's ending fund balance of \$72.7 million. The primary cause of the decreased fund balance is expenditures related to the District's ongoing modernization projects.

General Fund Budgetary Highlights

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

- Revenues – increased by \$6.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$0.6 million due to reflect changes in staffing estimates.
- Other non-capital expenses – increased \$1.4 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$2.2 million, the actual results for the year show that expenditures exceeded revenues by only \$0.7 million. Actual revenues were \$1.0 million less than anticipated, but expenditures were \$2.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2013 that will be carried over into the 2013-14 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012-13 the District had invested \$23.5 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$4.0 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2013	2012	
Land	\$ 17.2	\$ 17.2	\$ -
Improvement of sites	3.5	3.7	(0.2)
Buildings	101.3	103.9	(2.6)
Furniture and equipment	3.5	3.5	-
Construction in progress	55.6	33.3	22.3
Total	<u>\$ 181.1</u>	<u>\$ 161.6</u>	<u>\$ 19.5</u>

ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013*

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$38.8 million in general obligation bonds, certificates of participation, and employment benefits – a decrease of 1.4% from last year – as shown in Table A-4. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2013	2012*	
General obligation bonds	\$ 26.1	\$ 26.7	\$ (0.6)
Certificates of participation	9.1	9.2	(0.1)
Early retirement incentives	0.5	0.8	(0.3)
Compensated absences	0.5	0.6	(0.1)
Other postemployment benefits	2.6	2.0	0.6
Total	<u>\$ 38.8</u>	<u>\$ 39.3</u>	<u>\$ (0.5)</u>

* As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line-item veto authority to reduce or eliminate non-Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by \$5.6 million.

The state spending plan assumes total budget expenditures of \$138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012-13. This consists of \$96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as \$42 billion from special funds. The budget estimates that spending from federal funds in 2013-14 will total \$87.6 billion, an increase of 7.7 percent over 2012-13.

The administration's May Revision estimates of 2012-13 revenues were about \$2.3 billion higher than when the 2012-13 spending plan was adopted last year. These higher revenues result in \$2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K-14 education. In addition, higher expenditures in other areas contributed to the estimated 2012-13 General Fund ending balance being about \$694 million lower than was assumed in the 2012-13 spending plan. Nevertheless, under the spending plan 2012-13 would end with a \$254 million reserve, the first such year-end positive balance in the reserve since 2007-08.

The spending plan assumes General Fund and Education Protection Account revenues of \$97.1 billion and expenditures of \$96.3 billion. The resulting \$817 million operating surplus combined with the \$254 million positive ending balance for 2012-13 produce an estimated \$1.1 billion reserve for 2013-14.

ADELANTO SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Major Spending Changes

For K–12 education, the largest 2013–14 augmentation (\$2.1 billion) is for implementing the Local Control Funding Formula (LCFF) for school districts. Other major 2013–14 K–12 augmentations include \$406 million in grants and loans for energy projects, an additional \$250 million on a one-time basis for the Common Core State Standards initiative, \$250 million on a one-time basis for a new Career Pathways program, \$50 million to augment the mandate block grant, \$32 million to implement the LCFF for county offices of education (COEs), and \$10 million to establish the California Collaborative for Educational Excellence (CCEE) to provide low-performing school districts with academic assistance.

The budget also further pays down K–12 deferrals. Additionally, the budget includes a 1.57 percent cost-of-living adjustment (COLA) for certain K–12 categorical programs. The budget includes a slight increase to reflect 0.2 percent growth in K–12 ADA. The budget also provides a \$26 million (5 percent) increase to the part-day/part-year State Preschool program to support approximately 7,100 new preschool slots.

In 2013–14, despite fewer overall resources compared to 2012–13, much less funding is designated for paying down deferrals. This frees up funds in 2013–14 that can be used for other purposes. In total, the budget includes a \$2.6 billion increase in K–12 ongoing funding. Ongoing funding per student (as measured by ADA) increases from \$7,590 in 2012–13 to \$8,005 in 2013–14—an increase of \$415 (5.5 percent).

LCFF for School Districts and Charter Schools

The budget package includes a major restructuring of the state's funding system for school districts and charter schools. The new LCFF system replaces existing funding formulas for revenue limits and most categorical programs with a weighted student funding formula. Over the course of implementation, districts will receive additional funding to reduce the same share of the gap between their existing per-pupil funding rates and their targets under the LCFF. Full implementation of the LCFF is expected to take eight years (with full implementation in 2020–21) and cost \$18 billion (not accounting for future COLA costs). The *2013–14 Budget Act* provides first-year funding of \$2.1 billion. This is expected to close 12 percent of each district's gap.

Deferral Paydowns

After four consecutive years of increasing the amount of deferrals for schools and community colleges—reaching a total of \$10.4 billion in outstanding deferrals by the end of 2011–12—the 2012–13 budget plan provided \$2.2 billion to reduce the amount of outstanding deferrals. The recently enacted budget plan makes an additional \$1.8 billion in 2012–13 deferral paydowns as well as \$272 million in paydowns in 2013–14. Under the budget package, \$6.2 billion in outstanding deferrals remain as of the end of 2013–14.

Common Core Implementation

The budget plan provides \$1.25 billion in one-time funding to schools for implementation of the CCSS. (Of this amount, the budget plan counts \$1 billion towards meeting the 2012–13 minimum guarantee and \$250 million towards meeting the 2013–14 guarantee.) The CCSS are nationally developed standards for math and English/Language Arts that the state adopted in 2010. Under current law, schools are required to align instruction to the CCSS beginning in 2014–15. The \$1.25 billion in CCSS funding must be spent in 2013–14 or 2014–15 for professional development, instructional materials, and technology that assist schools in aligning instruction to the CCSS. Local governing boards are required in a series of public meetings to discuss and adopt a plan for spending the funds and must report how the funds were spent to the California Department of Education (CDE) by July 1, 2015.

ADELANTO SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 39

Passed by the voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings.

Adult Education

In an effort to improve coordination among adult education providers, the budget provides \$25 million (Proposition 98 General Fund) for a new Adult Education Consortium Program. School districts and community colleges that form a regional consortium are eligible to apply for these funds.

In a related action, the budget package eliminates school districts' adult education categorical program and consolidates all associated annual funding (\$635 million Proposition 98 General Fund) into the school district LCFF. The budget package, however, contains a requirement for school districts (through their adult schools) to maintain at least their 2012-13 level of state spending on adult education in 2013-14 and 2014-15.

New Career Pathways Program

The budget provides \$250 million in one-time Proposition 98 funding to create a "California Career Pathways Trust." The primary purpose of the new program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K-14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum.

Special Education

The budget package makes three notable changes to special education funding. First, the package simplifies the state's approach to distributing funding to special education local plan areas (SELPAs) by delinking state and federal special education allocation formulas. A conforming change revises the "statewide target rate" used to fund new students to the updated statewide average per-pupil funding rate. Second, the budget provides \$2.6 million in Proposition 98 funds to fully offset federal sequestration funding cuts for preschoolers and infants/toddlers with disabilities and provides \$2.1 million in federal carryover funds to partially mitigate federal sequestration funding cuts for K-12 students with disabilities. Third, the package consolidates 11 special education categorical grants into 5 larger grants.

All of these factors were considered in preparing the Adelanto School District budget for the 2013-14 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

ADELANTO SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 39,872,652
Investments	1,101,834
Accounts receivable	13,956,331
Inventories	205,307
Prepaid expenses	112,370
Total current assets	<u>55,248,494</u>
Capital Assets:	
Non-depreciable assets	72,811,302
Depreciable assets	151,360,411
Less accumulated depreciation	<u>(43,082,995)</u>
Total capital assets, net of depreciation	<u>181,088,718</u>
Total assets	<u>236,337,212</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	<u>6,668,375</u>
Total current liabilities	<u>6,668,375</u>
Long-term liabilities:	
Portion due or payable within one year:	2,865,924
Portion due or payable after one year:	35,886,806
Total long-term liabilities	<u>38,752,730</u>
Total liabilities	<u>45,421,105</u>
 NET POSITION	
Net investment in capital assets	161,782,637
Restricted for:	
Capital projects	29,404,060
Debt service	3,607,811
Categorical programs	7,166,362
Unrestricted	<u>(11,044,763)</u>
Total net position	<u>\$ 190,916,107</u>

ADELANTO SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instructional services:					
Instruction	\$ 34,568,315	\$ 5,744	\$ 5,719,728	\$ 159,648	\$ (28,683,195)
Instruction-related services:					
Supervision of instruction	1,177,370	-	412,813	-	(764,557)
Instructional library, media and technology	284,662	-	183	-	(284,479)
School site administration	4,231,345	539	139,447	-	(4,091,359)
Pupil support services:					
Home-to-school transportation	2,326,133	-	356,015	-	(1,970,118)
Food services	5,017,488	116,914	5,439,847	-	539,273
All other pupil services	2,109,774	166	185,300	-	(1,924,308)
General administration services:					
Data processing services	537,433	-	-	-	(537,433)
Other general administration	3,095,030	5,003	526,776	-	(2,563,251)
Plant services	7,335,641	2,578	8,380	-	(7,324,683)
Community services	48,032	-	27,203	-	(20,829)
Transfers between agencies	37,003	-	-	-	(37,003)
Interest on long-term debt	2,104,711	-	-	-	(2,104,711)
Other outgo	10,587	402,971	16,684	-	409,068
Depreciation (unallocated)	4,046,798	-	-	-	(4,046,798)
Total Governmental Activities	\$ 66,930,322	\$ 533,915	\$ 12,832,376	\$ 159,648	(53,404,383)
General Revenues:					
Property taxes					6,397,436
Federal and state aid not restricted to specific purpose					42,898,089
Interest and investment earnings					51,364
Interagency revenues					35,503
Miscellaneous					209,871
Total general revenues					49,592,263
Change in net position					(3,812,120)
Net position, July 1, 2012, as originally stated					194,403,227
Adjustment for restatement (Note 13)					325,000
Net position, July 1, 2012, as restated					194,728,227
Net position, June 30, 2013					\$ 190,916,107

ADELANTO SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 11,699,451	\$ 2,008,458	\$ 21,978,958	\$ 4,185,785	\$ 39,872,652
Investments	-	-	-	1,101,834	1,101,834
Accounts receivable	12,911,809	1,471	20,449	1,022,602	13,956,331
Due from other funds	-	-	8,850,607	-	8,850,607
Inventories	102,783	-	-	102,524	205,307
Prepaid expenditures	112,370	-	-	-	112,370
Total Assets	<u>\$ 24,826,413</u>	<u>\$ 2,009,929</u>	<u>\$ 30,850,014</u>	<u>\$ 6,412,745</u>	<u>\$ 64,099,101</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 4,263,398	\$ -	\$ 1,605,276	499,038	\$ 6,367,712
Due to other funds	7,000,000	1,850,607	-	-	8,850,607
Total Liabilities	<u>11,263,398</u>	<u>1,850,607</u>	<u>1,605,276</u>	<u>499,038</u>	<u>\$ 15,218,319</u>
Fund Balances					
Nonspendable	275,153	-	-	103,419	378,572
Restricted	5,214,236	159,322	29,244,738	5,810,288	40,428,584
Committed	240,462	-	-	-	240,462
Unassigned	7,833,164	-	-	-	7,833,164
Total Fund Balances	<u>13,563,015</u>	<u>159,322</u>	<u>29,244,738</u>	<u>5,913,707</u>	<u>48,880,782</u>
Total Liabilities and Fund Balances	<u>\$ 24,826,413</u>	<u>\$ 2,009,929</u>	<u>\$ 30,850,014</u>	<u>\$ 6,412,745</u>	<u>\$ 64,099,101</u>

ADELANTO SCHOOL DISTRICT

*Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013*

Total fund balances - governmental funds \$ 48,880,782

Amounts reported for governmental *activities* in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$224,171,713, and the accumulated depreciation is (\$43,082,995). 181,088,718

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (300,663)

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

General obligation bonds payable	26,075,894	
Certificates of participation payable	9,076,199	
Compensated absences payable	507,071	
Early retirement incentive	465,941	
Other postemployment benefits	<u>2,627,625</u>	<u>(38,752,730)</u>

Total net position - governmental activities \$ 190,916,107

ADELANTO SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Fiscal Year Ended June 30, 2013

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 40,977,163	\$ -	\$ -	\$ -	\$ 40,977,163
Federal sources	3,824,962	-	-	5,221,977	9,046,939
Other state sources	7,983,570	-	-	442,110	8,425,680
Other local sources	1,368,249	420,281	159,648	2,720,242	4,668,420
Total Revenues	54,153,944	420,281	159,648	8,384,329	63,118,202
EXPENDITURES					
Current:					
Instruction	34,344,861	-	-	-	34,344,861
Instruction-related services:					
Supervision of instruction	1,177,345	-	-	-	1,177,345
Instructional library, media and technology	266,631	-	-	-	266,631
School site administration	4,127,639	-	-	-	4,127,639
Pupil support services:					
Home-to-school transportation	2,301,123	-	-	-	2,301,123
Food services	32,432	-	-	5,169,050	5,201,482
All other pupil services	2,088,477	-	-	-	2,088,477
Community services	48,032	-	-	-	48,032
General administration services:					
Data processing services	537,433	-	-	-	537,433
Other general administration	3,443,152	-	-	-	3,443,152
Plant services	7,204,979	(1,100)	-	3,759	7,207,638
Transfers of indirect costs	(209,977)	-	-	209,977	-
Intergovernmental transfers	37,003	-	-	-	37,003
Capital outlay	34,208	22,000	23,286,494	-	23,342,702
Debt service:					
Principal	-	-	-	918,876	918,876
Interest	-	-	-	1,920,402	1,920,402
Total Expenditures	55,433,338	20,900	23,286,494	8,222,064	86,962,796
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,279,394)	399,381	(23,126,846)	162,265	(23,844,594)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	38,760	1,915,342	507,981	2,462,083
Interfund transfers out	-	(2,423,323)	(38,760)	-	(2,462,083)
Total Other Financing Sources and Uses	-	(2,384,563)	1,876,582	507,981	-
Net Change in Fund Balances	(1,279,394)	(1,985,182)	(21,250,264)	670,246	(23,844,594)
Fund Balances, July 1, 2012	14,842,409	2,144,504	50,495,002	5,243,461	72,725,376
Fund Balances, June 30, 2013	\$ 13,563,015	\$ 159,322	\$ 29,244,738	\$ 5,913,707	\$ 48,880,782

ADELANTO SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2013

Total net change in fund balances - governmental funds \$ (23,844,594)

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

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

Expenditures for capital outlay	23,545,532	
Depreciation expense	<u>(4,046,798)</u>	19,498,734

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 918,876

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was: (187,458)

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

In governmental funds, postemployment benefits costs are recognized as expenditures in the period that they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: (598,753)

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits, such as retirement incentives financed over time, and structured legal settlements. This year, early retirement incentives granted exceeded the amounts paid by: 316,289

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 3,150

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*). 92,223

Change in net position of governmental activities \$ (3,812,120)

ADELANTO SCHOOL DISTRICT
Statement of Net Position – Fiduciary Fund
June 30, 2013

	Agency Funds	
	Student Body Funds	Debt Service Fund for Special Tax Bonds
Assets		
Cash	\$ 33,309	\$ -
Investments	-	3,356,675
Total Assets	\$ 33,309	\$ 3,356,675
Liabilities		
Due to bondholders	\$ -	\$ 3,356,675
Due to student groups	33,309	-
Total Liabilities	\$ 33,309	\$ 3,356,675

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of Adelanto School District and its component units, legally separate organizations for which the District is financially accountable. These component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Trustees also serves as the governing board for the Community Facilities Districts.

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

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

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

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

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

Fund Financial Statements

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

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund, a Special Reserve Fund for Other Than Capital Outlay Projects, and a Self-Insurance Fund. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Deferred Maintenance Fund does not currently meet the definition of special revenue funds as it is no longer primarily composed of restricted or committed revenue sources. In addition, the Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. The Self-insurance Fund is also not operating as a true self-insurance fund and is also not composed of restricted or committed resources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Fund:

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

Capital Projects Fund:

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

Debt Service Funds:

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

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

Fiduciary Funds

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

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

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

C. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund and the Cafeteria Fund in the required supplementary information section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments". Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

2. Cash and Cash Equivalents

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

3. Property Tax Calendar

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

4. Inventories and Prepaid Items

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

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

5. Capital Assets

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position (continued)

6. Compensated Absences

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

7. Fund Balances

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

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

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

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

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

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

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements

During the 2012-13 fiscal year, the following GASB Pronouncements became effective:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*:

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*: The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position: This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2013 are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 38,435,974	\$ -
Total Pooled Funds	<u>38,435,974</u>	<u>-</u>
Deposits:		
Cash on hand and in banks	1,375,783	33,309
Cash in revolving fund	60,895	-
Total Deposits	<u>1,436,678</u>	<u>33,309</u>
Total Cash	<u>\$ 39,872,652</u>	<u>\$ 33,309</u>
Investments:		
Zion Bank:		
Fidelity Institutional Gov. Money Market	<u>\$ 1,101,834</u>	<u>\$ 3,356,675</u>

Pooled Funds

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

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

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, 2013, \$1,316,781 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2013 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
Zion Bank:			
Fidelity Institutional Gov. Money Market	\$ 4,458,509	\$ 4,458,509	\$ -

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2013, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2013, the District had the following investments that represents more than five percent of the District's net investments.

Zion Bank:	
Fidelity Institutional Gov. Money Market	100%

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consisted of the following:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 1,107,440	\$ -	\$ -	\$ 947,517	\$ 2,054,957
State Government:					
Revenue limit	9,593,379	-	-	-	9,593,379
Lottery	644,810	-	-	-	644,810
Categorical aid programs	150,875	-	-	73,200	224,075
Class size reduction	490,679	-	-	-	490,679
Other state resources	218,499	-	-	-	218,499
Local:					
Interest	5,159	1,471	20,449	10	27,089
Miscellaneous	700,968	-	-	1,875	702,843
Total	<u>\$ 12,911,809</u>	<u>\$ 1,471</u>	<u>\$ 20,449</u>	<u>\$ 1,022,602</u>	<u>\$ 13,956,331</u>

NOTE 4 - INTERFUND ACTIVITIES

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2013 consist of the following:

General Fund due to County School Facilities Fund for a temporary loan	\$ 7,000,000
Capital Facilities Fund due to County School Facilities Fund for the payment of construction expenses	<u>1,850,607</u>
Total	<u>\$ 8,850,607</u>

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2013 consist of the following:

Capital Facilities Fund transfer to County School Facilities Fund for the District's contribution to State School Construction Projects & expenditure payments	\$ 1,915,342
Capital Facilities Fund transfer to Debt Service Fund for Blended Component Units for the payment of COP	507,981
County School Facilities Fund transfer to Capital Facilities Fund for the payment of construction expenses	<u>38,760</u>
Total	<u>\$ 2,462,083</u>

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy

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

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

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

At June 30, 2013, fund balances of the District's governmental funds were classified as follows:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 60,000	\$ -	\$ -	\$ 895	\$ 60,895
Stores inventories	102,783	-	-	102,524	205,307
Prepaid expenditures	112,370	-	-	-	112,370
Total Nonspendable	<u>275,153</u>	<u>-</u>	<u>-</u>	<u>103,419</u>	<u>378,572</u>
Restricted:					
Categorical programs	5,214,236	-	-	-	5,214,236
Child nutrition program	-	-	-	1,848,707	1,848,707
Capital projects	-	159,322	29,244,738	353,770	29,757,830
Debt service	-	-	-	3,607,811	3,607,811
Total Restricted	<u>5,214,236</u>	<u>159,322</u>	<u>29,244,738</u>	<u>5,810,288</u>	<u>40,428,584</u>
Committed:					
Deferred maintenance program	240,462	-	-	-	240,462
Total Committed	<u>240,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,462</u>
Unassigned:					
Reserve for economic uncertainties	1,637,498	-	-	-	1,637,498
Remaining unassigned balances	6,195,666	-	-	-	6,195,666
Total Unassigned	<u>7,833,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,833,164</u>
Total	<u>\$ 13,563,015</u>	<u>\$ 159,322</u>	<u>\$ 29,244,738</u>	<u>\$ 5,913,707</u>	<u>\$ 48,880,782</u>

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance, July 1, 2012	Additions	Retirements	Balance, June 30, 2013
Capital assets not being depreciated:				
Land	\$ 17,227,742	\$ 18,000	\$ -	\$ 17,245,742
Construction in progress	33,274,363	22,291,197	-	55,565,560
Total capital assets not being depreciated	<u>50,502,105</u>	<u>22,309,197</u>	<u>-</u>	<u>72,811,302</u>
Capital assets being depreciated:				
Improvement of sites	7,229,722	141,710	-	7,371,432
Buildings	132,472,711	816,903	-	133,289,614
Equipment	10,421,643	277,722	-	10,699,365
Total capital assets being depreciated	<u>150,124,076</u>	<u>1,236,335</u>	<u>-</u>	<u>151,360,411</u>
Accumulated depreciation for:				
Improvement of sites	(3,572,410)	(323,142)	-	(3,895,552)
Buildings	(28,595,530)	(3,349,456)	-	(31,944,986)
Equipment	(6,868,257)	(374,200)	-	(7,242,457)
Total accumulated depreciation	<u>(39,036,197)</u>	<u>(4,046,798)</u>	<u>-</u>	<u>(43,082,995)</u>
Total capital assets being depreciated, net	<u>111,087,879</u>	<u>(2,810,463)</u>	<u>-</u>	<u>108,277,416</u>
Governmental activity capital assets, net	<u>\$ 161,589,984</u>	<u>\$ 19,498,734</u>	<u>\$ -</u>	<u>\$ 181,088,718</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2013 were as follows:

	Original Balance, July 1, 2012	Adjustments for Restatements	Restated Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013	Amount Due Within One Year
General Obligation Bonds:							
Principal repayments	\$ 11,397,528	\$ -	\$ 11,397,528	\$ -	\$ 813,876	\$ 10,583,652	\$ 829,999
Accreted interest component	15,304,784	-	15,304,784	1,701,427	1,513,969	15,492,242	1,718,852
Total - G.O. Bonds	<u>26,702,312</u>	<u>-</u>	<u>26,702,312</u>	<u>1,701,427</u>	<u>2,327,845</u>	<u>26,075,894</u>	<u>2,548,851</u>
Certificates of Participation:							
Principal repayments	9,430,000	-	9,430,000	-	105,000	9,325,000	120,000
Unamortized issuance discount	(259,388)	-	(259,388)	-	(10,587)	(248,801)	(10,587)
Total - COPs	<u>9,170,612</u>	<u>-</u>	<u>9,170,612</u>	<u>-</u>	<u>94,413</u>	<u>9,076,199</u>	<u>109,413</u>
Compensated Absences	599,294	-	599,294	-	92,223	507,071	-
Early Retirement Incentives	1,107,230	(325,000)	782,230	-	316,289	465,941	207,660
Other Postemployment Benefits	2,028,872	-	2,028,872	598,753	-	2,627,625	-
Totals	<u>\$ 39,608,320</u>	<u>\$ (325,000)</u>	<u>\$ 39,283,320</u>	<u>\$ 2,300,180</u>	<u>\$ 2,830,770</u>	<u>\$ 38,752,730</u>	<u>\$ 2,865,924</u>

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

A. General Obligation Bonds

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

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

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

Below is a summary of bonds issued by the District.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance July 1, 2012	Additions	Deductions	Balance, June 30, 2013
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 1,662,358	\$ -	\$ 199,606	\$ 1,462,752
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	2,710,387	-	336,267	2,374,120
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	1,173,721	-	151,950	1,021,771
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,851,062	-	126,053	5,725,009
				<u>\$ 21,995,645</u>	<u>\$ 11,397,528</u>	<u>\$ -</u>	<u>\$ 813,876</u>	<u>\$ 10,583,652</u>
Accreted Interest								
				1993	\$ 2,436,886	\$ 216,976	\$ 355,394	\$ 2,298,468
				1994	3,933,762	581,649	781,578	3,733,833
				1996	1,682,090	160,020	223,050	1,619,060
				1997	7,252,046	742,782	153,947	7,840,881
					<u>\$ 15,304,784</u>	<u>\$ 1,701,427</u>	<u>\$ 1,513,969</u>	<u>\$ 15,492,242</u>

The amounts required to amortize general obligation bonds payable at June 30, 2013 were:

Fiscal Year	Principal	Interest	Total
2013-14	\$ 829,999	\$ 1,718,853	\$ 2,548,852
2014-15	851,224	1,939,735	2,790,959
2015-16	875,269	2,191,879	3,067,148
2016-17	902,132	2,473,495	3,375,627
2017-18	931,942	2,793,599	3,725,541
2018-23	6,193,086	17,531,913	23,724,999
Total	<u>\$ 10,583,652</u>	<u>\$ 28,649,474</u>	<u>\$ 39,233,126</u>

B. Certificates of Participation

On January 17, 2007 the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the Public Property Financing Corporation of California. The proceeds of the certificates were used primarily to finance the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. The certificates were issued as \$1,870,000 Serial Certificates with stated interest rates of between 3.875% and 4.25% and maturing between September 1, 2011 and 2021 and Term Certificates of \$1,705,000, and \$5,920,000, having yields of 4.48% and 4.53%, and maturing September 1, 2026, and 2036, respectively. At June 30, 2013 the principal balance outstanding was \$9,325,000.

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2013

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

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

Fiscal Year	Principal	Interest	Total
2013-14	\$ 120,000	\$ 398,484	\$ 518,484
2014-15	135,000	393,384	528,384
2015-16	150,000	387,778	537,778
2016-17	170,000	381,578	551,578
2017-18	185,000	374,584	559,584
2017-22	1,230,000	1,786,128	3,016,128
2023-28	1,840,000	1,489,468	3,329,468
2028-33	2,645,000	1,040,484	3,685,484
2033-37	<u>2,850,000</u>	<u>397,141</u>	<u>3,247,141</u>
Total	<u>\$ 9,325,000</u>	<u>\$ 6,649,029</u>	<u>\$ 15,974,029</u>

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2013 for these obligations are shown below.

Future Years	SERP
2013-14	\$ 207,660
2014-15	148,875
2015-16	54,703
2016-17	<u>54,703</u>
Total	<u>\$ 465,941</u>

D. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$19,265,000 as of June 30, 2013, does not represent debt of the District and, as such, does not appear in the financial statements.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 8 – JOINT VENTURES

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

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

Condensed financial information is as follows:

	SCSRM June 30, 2012 (Audited)	SCSEBA June 30, 2013 (Unaudited)
Total Assets	\$ 53,553,200	\$ 22,968,423
Total Liabilities	13,768,043	9,201,391
Total Net Position	<u>\$ 39,785,157</u>	<u>\$ 13,767,032</u>
Revenues	\$ 29,218,010	\$ 120,644,846
Expenses	33,933,500	121,840,979
Operating Income (Loss)	(4,715,490)	(1,196,133)
Non-Operating Revenue (Expense)	1,864,553	(2,902,339)
Change in Net Position	<u>\$ (2,850,937)</u>	<u>\$ (4,098,472)</u>

NOTE 9 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2013, the District participated in the SCSRM public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2012-13, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

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

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

At June 30, 2013, the District had commitments with respect to unfinished capital projects of \$15.4 million to be paid from a combination of State and local funds.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2012-13 was 11.417%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2012-13	\$ 1,044,457	100%
2011-12	\$ 951,908	100%
2010-11	\$ 959,469	100%

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2012-13	\$ 2,075,568	100%
2011-12	\$ 1,944,978	100%
2010-11	\$ 1,947,896	100%

Alternative Retirement Program (ARP)

Plan Description

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

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$1,798,566 during 2012-13. The total amount of covered compensation was \$67,336. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$1.7 million to STRS (4.267% of salaries subject to STRS in 2012-13).

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	37
Active plan members*	<u>511</u>
Total	<u><u>548</u></u>

**As of November 1, 2011 actuarial valuation*

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

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

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. The District established the self insurance fund to set aside funds of this liability. For fiscal year 2012-13, the District contributed \$284,802.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

ADELANTO SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$ 871,976
Interest on net OPEB obligation	101,444
Adjustment to ARC	<u>(89,865)</u>
Annual OPEB cost	883,555
Contributions made:	<u>(284,802)</u>
Increase in net OPEB obligation	598,753
Net OPEB obligation - July 1, 2012	<u>2,028,872</u>
Net OPEB obligation - June 30, 2013	<u><u>\$ 2,627,625</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	\$ 876,754	33%	\$ 1,429,020
2012	880,132	32%	2,028,872
2013	883,555	32%	2,627,625

Funded Status and Funding Progress – OPEB Plans

As of November 1, 2011 the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$4.1 million and the unfunded actuarial accrued liability (UAAL) was \$4.1 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

ADELANTO SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Additional information as of the latest actuarial valuation follows:

Valuation Date	November 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	5%
Inflation	3%
Healthcare cost trend rate	4%

NOTE 13 – ADJUSTMENTS FOR RESTATEMENTS

The beginning net position on the statement of activities has been restated by \$325,000. The restatement is necessary to remove a portion of the balance of early retirement incentive debt outstanding at June 30, 2012 that was previously included in long-term liabilities.

NOTE 14 – FUTURE GASB PRONOUNCEMENTS

The following statements issued by the Governmental Accounting Standards Board (GASB) will become effective in future years and are expected to have a significant impact on the District's financial reporting:

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

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

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

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.

This Statement will become effective in 2013-14.

NOTE 14 – FUTURE GASB PRONOUNCEMENTS (continued)

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

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

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

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

Cost-Sharing Employers

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

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

This Statement will become effective in 2014-15.

NOTE 15 - SUBSEQUENT EVENT

Desert Trails Parent Takeover

In October 2012, more than 50% of the parents of students at Desert Trails Elementary School signed a petition and voted to convert the school into a charter school. As of July 1, 2013, the school became the Desert Trails Preparatory Academy in accordance with the Parent Empowerment Act. As such, the District projects to lose approximately 500 ADA during the 2013-14 fiscal year, and no longer possesses the title to the school site property.

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Required Supplementary Information

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ADELANTO SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue limit sources	\$ 37,371,124	\$ 41,282,739	\$ 40,977,163	\$ (305,576)
Federal sources	3,183,103	4,270,839	3,824,962	(445,877)
Other state sources	6,971,274	7,697,294	7,689,429	(7,865)
Other local sources	1,172,636	1,573,013	1,366,162	(206,851)
Total Revenues	48,698,137	54,823,885	53,857,716	(966,169)
Expenditures				
Current:				
Certificated salaries	25,662,421	26,006,102	25,839,159	166,943
Classified salaries	9,232,350	9,226,809	9,166,895	59,914
Employee benefits	10,424,030	10,694,545	10,411,922	282,623
Books and supplies	2,879,455	3,502,043	2,564,979	937,064
Services and other operating expenditures	6,594,496	7,466,087	6,506,090	959,997
Intergovernmental	104,724	37,958	37,003	955
Capital Outlay	9,518	57,216	57,215	1
Total Expenditures	54,906,994	56,990,760	54,583,263	2,407,497
Net Change in Fund Balances	(6,208,857)	(2,166,875)	(725,547)	1,441,328
Fund Balances, July 1, 2012	14,046,160	14,046,160	14,046,160	-
Fund Balances, June 30, 2013	\$ 7,837,303	\$ 11,879,285	\$ 13,320,613	\$ 1,441,328

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

ADELANTO SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

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

ADELANTO SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2013, the District did not incur any excess of expenditures over appropriations in the General Fund presented in the Budgetary Comparison Schedule.

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Supplementary Information

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ADELANTO SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2013

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

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Christine Turner	President	November, 2014
Elaine Gonzales	Clerk	November, 2016
Debra Jones	Member	November, 2016
Teresa Rogers	Member	November, 2016
Lisa Marie Garcia	Member	November, 2014

DISTRICT ADMINISTRATORS

Lily Matos DeBlieux, Ed.D.,
Superintendent

Laura Carevic,
Assistant Superintendent, Business Services

Edward Dardenne-Ankring, Jr.,
Assistant Superintendent, Human Resources

ADELANTO SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2013

	Second Period Report (Certificate No. <u>4F97B0C3</u>)	Annual Report (Certificate No. <u>0D94C30C</u>)
Elementary:		
Kindergarten	912	919
Grades 1 through 3	2,597	2,602
Grades 4 through 6	2,500	2,506
Grades 7 and 8	1,657	1,646
Home and hospital	15	17
Opportunity school	10	12
Special education	<u>281</u>	<u>283</u>
 Total Average Daily Attendance	 <u><u>7,972</u></u>	 <u><u>7,985</u></u>

ADELANTO SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2013

Grade Level	1982-83 Minutes		1986-87 Minutes		2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	31,500	30,625	36,000	35,000	47,513	179	Complied
Grade 1	46,375	45,087	50,400	49,000	50,114	179	Complied
Grade 2	46,375	45,087	50,400	49,000	50,114	179	Complied
Grade 3	46,375	45,087	50,400	49,000	50,114	179	Complied
Grade 4	52,500	51,042	54,000	52,500	53,694	179	Complied
Grade 5	52,500	51,042	54,000	52,500	53,694	179	Complied
Grade 6	52,500	51,042	54,000	52,500	53,831	179	Complied
Grade 7	52,500	51,042	54,000	52,500	53,777	179	Complied
Grade 8	52,500	51,042	54,000	52,500	53,777	179	Complied

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

ADELANTO SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2013

General Fund	(Budget) 2014 ²	2013 ³	2012	2011
Revenues and other financing sources	\$ 51,362,979	\$ 53,857,716	\$ 54,603,516	\$ 52,473,387
Expenditures	56,384,170	54,583,263	52,174,809	50,856,395
Other uses and transfers out	520,884	-	-	-
Total outgo	56,905,054	54,583,263	52,174,809	50,856,395
Change in fund balance (deficit)	(5,542,075)	(725,547)	2,428,707	1,616,992
Ending fund balance	\$ 7,778,538	\$ 13,320,613	\$ 14,046,160	\$ 11,617,453
Available reserves ¹	\$ 2,344,430	\$ 7,831,224	\$ 8,020,181	\$ 8,268,952
Available reserves as a percentage of total outgo	4.1%	14.3%	15.4%	16.3%
Total long-term debt ⁴	\$ 35,886,806	\$ 38,752,730	\$ 39,283,320	\$ 39,312,643
Average daily attendance at P-2	7,401	7,972	8,009	7,791

The General Fund balance has increased by \$1,703,160 over the past two years. The fiscal year 2013-14 adopted budget projects a decrease of \$5,542,075. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, and anticipates incurring an operating deficit during the 2013-14 fiscal year. Long-term debt has decreased by \$559,913 over the past two years.

Average daily attendance has increased by 181 over the past two years. A decrease of 571 ADA is anticipated during fiscal year 2013-14.

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

² Revised Final Budget September 2013.

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

ADELANTO SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13390	\$ 1,554,726	
National School Lunch Program	10.555	13391	3,221,495	
USDA Donated Foods	10.555	N/A	267,173	
Subtotal Child Nutrition Cluster				\$ 5,043,394
Cafeteria Fresh Fruit & Vegetable	10.582	14968		178,583
Total U.S. Department of Agriculture				5,221,977
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind Act (NCLB):				
Title I, Part A, Basic Grants	84.010	14329		1,549,407
Improving Teacher Quality Cluster:				
Title II, Part A, Teacher Quality Local	84.367	14341	173,200	
Title II, Part A, Administrator Training	84.367	14341	6,000	
Subtotal Improving Teacher Quality Cluster				179,200
Title III, Limited English Proficiency	84.365	14346		110,131
Individuals with Disabilities Education Act (IDEA):				
IDEA Basic Local Assistance Entitlement, Part B	84.027	13379		1,641,383
Total U.S. Department of Education				3,480,121
U.S. Department of Health & Human Services:				
Passed through California Department of Education:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	271,728	
Medi-Cal Administrative Activities (MAA)	93.778	10060	35,926	
Subtotal Medicaid Cluster				307,654
Total U.S. Department of Health & Human Services				307,654
Total Expenditures of Federal Awards				\$ 9,009,752

ADELANTO SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2013*

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

ADELANTO SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2013

<u>Name of Charter School</u>	<u>Included in District Audit?</u>
Alta Vista Public Charter	No

During the 2012-13 fiscal year the District approved two new charters to begin operations in the 2013-14 fiscal year.

ADELANTO SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2013

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code Section 46201.2(a).

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

Other Independent Auditors' Reports

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

Board of Trustees
Adelanto School District
Adelanto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Adelanto School District's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Adelanto School District's Response to Finding

Adelanto School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Adelanto School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

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December 16, 2013



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

Board of Trustees
Adelanto School District
Adelanto, California

Report on Compliance for Each Major Federal Program

We have audited Adelanto School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Adelanto School District's major federal programs for the year ended June 30, 2013. Adelanto School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Adelanto School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in blue ink that reads "Nigro+Nigro, PC". The signature is written in a cursive, slightly slanted style.

December 16, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Adelanto School District
Adelanto, California

Report on Compliance for State Programs

We have audited Adelanto School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. Adelanto School District's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Adelanto School District's State programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Adelanto School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Table with 3 columns: Description, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, and Early Retirement Incentive.

Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable

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

Opinion on Compliance with State Programs

In our opinion, Adelanto School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2013.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.



December 16, 2013

Findings and Questioned Costs

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ADELANTO SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

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

Identification of major programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
93.778	Medicaid Cluster

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

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs For the Fiscal Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2013-1: OPEB Actuarial Study (60000)

Criteria: As promulgated by GASB Statement No. 45, all OPEB plans involving 200 or more members are required to have an actuarial study performed every two years.

Condition: The District's last actuarial study was performed on November 1, 2011 and used for the fiscal years ending June 30, 2011 and 2012. This indicates that a new actuarial study would need to be completed for the fiscal year ending June 30, 2013. The District has not had an actuarial study completed.

Recommendation: We recommend that the District contract for a new actuarial study, and create internal control procedures to ensure that the District obtains an actuarial study every two years. Furthermore, we recommend that the District obtain its subsequent actuarial study performed as of July 1st to coincide with the District's fiscal year.

District Response: In November 2013, the Board approved a contract with Total Compensation Systems, Inc. to conduct an actuarial study. The District will create a calendar to ensure a new study is performed every two years in accordance with GASB Statement No. 45.

ADELANTO SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

There were no federal award findings or questioned costs in 2012-13.

ADELANTO SCHOOL DISTRICT

*Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2012-13.

ADELANTO SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2013

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2012-1: After School Education and Safety Program</i>	<p>Education Code Section 8482.4 requires Districts receiving funding for the After School Education and Safety program to submit semi-annual attendance reports to the California Department of Education.</p> <p>During our testing of the first semi-annual attendance report of the ASES program, the District incorrectly reported the attendance for two sites.</p>	40000	The District should revise the semi-annual attendance report immediately.	Implemented.