

**LA MESA-SPRING VALLEY
SCHOOL DISTRICT**

AUDIT REPORT
JUNE 30, 2015

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
OF SAN DIEGO COUNTY**

LA MESA, CALIFORNIA

JUNE 30, 2015

La Mesa-Spring Valley School District was formed in 1915 and is located in the eastern portion of San Diego County. The District encompasses approximately 26 square miles including the City of La Mesa, a portion of the City of El Cajon and the unincorporated communities of Mt. Helix, Casa de Oro, and Spring Valley. There were no changes in the boundaries of the District during the current year. The District currently operates seventeen elementary schools and four middle schools.

GOVERNING BOARD

| Member | Office | Term Expires |
|---------------|----------------|---------------------|
| Rick Winet | President | December, 2018 |
| Bob Duff | Vice President | December, 2018 |
| Emma Turner | Clerk | December, 2016 |
| David Chong | Member | December, 2018 |
| Steve Babbitt | Member | December, 2016 |

DISTRICT ADMINISTRATORS

Brian E. Marshall
Superintendent

Karen Walker
Assistant Superintendent, Instruction

Tina Sardina
Assistant Superintendent, Human Resources

David Feliciano
Assistant Superintendent, Business Services

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

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State Board of Accountancy*

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

Opinions

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

Emphasis of a Matter

As described in Note 1 to the financial statements, in 2015 La Mesa-Spring Valley School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the La Mesa-Spring Valley School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015 on our consideration of La Mesa-Spring Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Mesa-Spring Valley School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 10, 2015

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

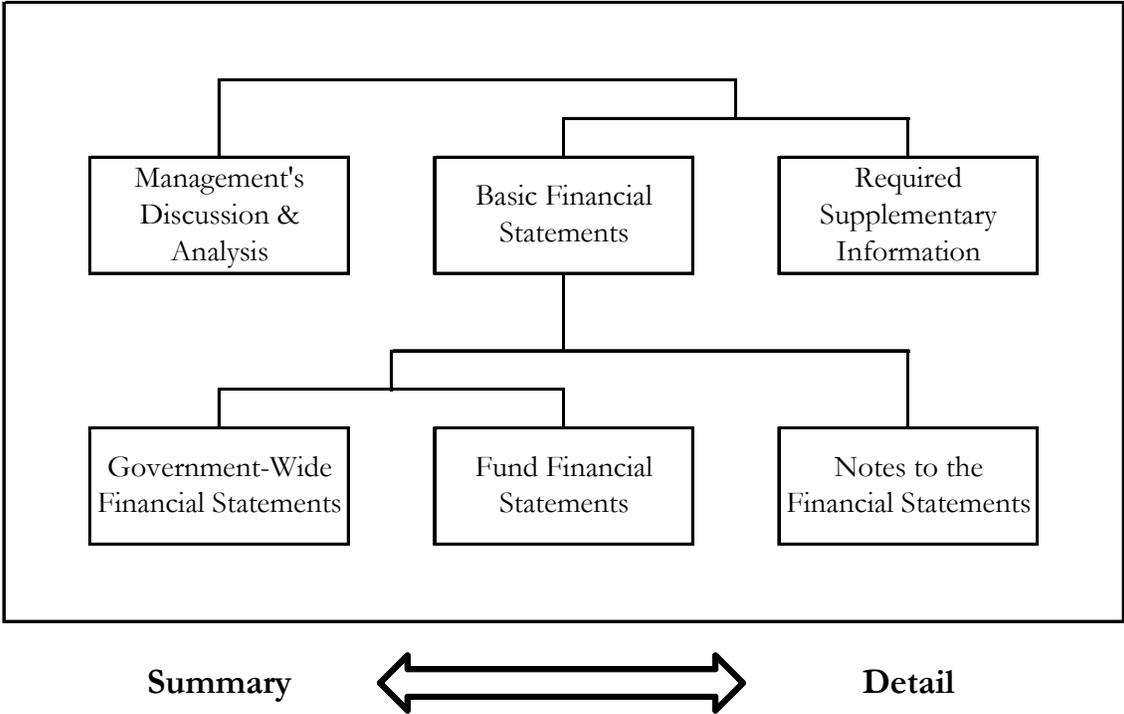
Our discussion and analysis of La Mesa-Spring Valley School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was (\$67,576,063) at June 30, 2015. This was a decrease of \$3,441,930 from the prior year's restated net position.
- ▶ Overall revenues were \$119,939,904 which was exceeded by expenses of \$123,381,834.
- ▶ General Fund revenues and other financing sources were exceeded by expenditures and other financing uses by \$1,346,893.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*
FOR THE YEAR ENDED JUNE 30, 2015

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** 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.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-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 government'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 government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. LCFF funding and federal and state grants finance most of these activities.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District had net position of \$(67,844,274) related to governmental activities and \$268,211 related to business-type activities at June 30, 2015 as shown below:

| | Governmental Activities | | | Business-Type Activities | | |
|---------------------------------------|--------------------------------|----------------------|-------------------------|---------------------------------|-------------------|-------------------|
| | 2015 | 2014 | Net Change | 2015 | 2014 | Net Change |
| ASSETS | | | | | | |
| Current and other assets | \$ 18,140,177 | \$ 24,347,777 | \$ (6,207,600) | \$ 502,581 | \$ 421,419 | \$ 81,162 |
| Capital assets | 70,824,578 | 74,575,302 | (3,750,724) | - | - | - |
| Total Assets | 88,964,755 | 98,923,079 | (9,958,324) | 502,581 | 421,419 | 81,162 |
| DEFERRED OUTFLOWS OF RESOURCES | 7,705,124 | 1,173,735 | 6,531,389 | - | - | - |
| LIABILITIES | | | | | | |
| Current liabilities | 6,872,485 | 12,936,212 | (6,063,727) | 234,370 | 164,400 | 69,970 |
| Long-term liabilities | 135,080,511 | 53,976,135 | 81,104,376 | - | - | - |
| Total Liabilities | 141,952,996 | 66,912,347 | 75,040,649 | 234,370 | 164,400 | 69,970 |
| DEFERRED INFLOWS OF RESOURCES | 22,561,157 | - | 22,561,157 | - | - | - |
| NET POSITION | | | | | | |
| Net investment in capital assets | 35,913,730 | 37,806,227 | (1,892,497) | - | - | - |
| Restricted | 7,500,051 | 7,545,698 | (45,647) | - | - | - |
| Unrestricted | (111,258,055) | (12,167,459) | (99,090,596) | 268,211 | 257,019 | 11,192 |
| Total Net Position | \$ (67,844,274) | \$ 33,184,466 | \$ (101,028,740) | \$ 268,211 | \$ 257,019 | \$ 11,192 |

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The following table takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

The District's total revenues relating to governmental activities were \$115,911,860 primarily from federal and state aid and categorical programs and property taxes.

The District's total expenditures relating to governmental activities were \$119,364,982, predominately related to educating and caring for students.

| | Governmental Activities | | | Business-Type Activities | | |
|---|-------------------------|----------------------|-------------------------|--------------------------|-------------------|------------------|
| | 2015 | 2014 | Net Change | 2015 | 2014 | Net Change |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 2,353,177 | \$ 2,373,340 | \$ (20,163) | \$ 3,780,493 | \$ 3,563,399 | \$ 217,094 |
| Operating grants and contributions | 19,573,029 | 19,519,837 | 53,192 | 12,341 | 7,386 | 4,955 |
| General revenues | | | | | | |
| Property taxes | 28,094,789 | 25,997,087 | 2,097,702 | - | - | - |
| Unrestricted federal and state aid | 63,590,855 | 55,183,161 | 8,407,694 | - | - | - |
| Other | 2,300,010 | 3,157,160 | (857,150) | 235,210 | 208,588 | 26,622 |
| Total Revenues | 115,911,860 | 106,230,585 | 9,681,275 | 4,028,044 | 3,779,373 | 248,671 |
| EXPENSES | | | | | | |
| Instruction | 69,010,985 | 64,285,619 | 4,725,366 | - | - | - |
| Instruction-related services | 11,631,601 | 10,643,598 | 988,003 | - | - | - |
| Pupil services | 16,635,668 | 15,629,818 | 1,005,850 | - | - | - |
| General administration | 4,238,713 | 4,127,562 | 111,151 | - | - | - |
| Plant services | 9,672,869 | 8,273,077 | 1,399,792 | - | - | - |
| Ancillary and community services | 1,605,407 | 1,631,821 | (26,414) | - | - | - |
| Debt service | 1,658,371 | 2,026,383 | (368,012) | - | - | - |
| Other Outgo | 313,224 | 106,406 | 206,818 | - | - | - |
| Depreciation | 4,581,360 | 4,304,712 | 276,648 | - | - | - |
| Other | 16,784 | 18,193 | (1,409) | 4,016,852 | 3,720,178 | 296,674 |
| Total Expenses | 119,364,982 | 111,047,189 | 8,317,793 | 4,016,852 | 3,720,178 | 296,674 |
| Change in net position | (3,453,122) | (4,816,604) | 1,363,482 | 11,192 | 59,195 | (48,003) |
| Net Position - Beginning, as Restated* | (64,391,152) | 38,001,070 | (102,392,222) | 257,019 | 197,824 | 59,195 |
| Net Position - Ending | \$ (67,844,274) | \$ 33,184,466 | \$ (101,028,740) | \$ 268,211 | \$ 257,019 | \$ 11,192 |

* Restatement to Beginning Net Position relates to the 2015 year only

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The net cost of services for governmental activities was \$97,438,776 in the current year compared to \$89,154,012 in the prior year as shown below:

| | Net Cost of Services | |
|----------------------------------|-----------------------------|----------------------|
| | 2015 | 2014 |
| Instruction | \$ 59,629,032 | \$ 53,889,322 |
| Instruction-related services | 10,186,785 | 9,277,060 |
| Pupil services | 7,794,683 | 7,280,575 |
| General administration | 3,858,921 | 3,665,593 |
| Plant services | 9,178,945 | 8,077,983 |
| Ancillary and community services | 238,882 | 521,990 |
| Debt service | 1,658,371 | 2,026,383 |
| Transfers to other agencies | 313,224 | 106,406 |
| Depreciation | 4,581,360 | 4,304,712 |
| Other | (1,427) | 3,988 |
| Total Expenses | \$ 97,438,776 | \$ 89,154,012 |

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR 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 \$14,839,489, which is less than last year's ending fund balance of \$15,184,332. The District's General Fund had \$1,430,549 less in operating revenues than expenditures for the year ended June 30, 2015, offset by net other financing sources of \$83,656, leading to a decrease in fund balance of \$1,346,893 from the prior year. The District's Cafeteria Fund had \$285,739 more in operating revenues than expenditures for the year ended June 30, 2015, and other financing sources of \$51,608, leading to an increase in fund balance of \$337,347 from the prior year. The District's Bond Interest and Redemption Fund had an increase in fund balance of \$416,276 from the prior year.

CURRENT YEAR BUDGET 2014-15

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014-15 the District had invested \$70,824,578 in capital assets, net of accumulated depreciation. The District had multiple small projects in 2014-15 that were more than offset by the depreciation expense on capital assets, leading to a decrease in capital assets of \$3,750,724 from the prior year.

| | Governmental Activities | | |
|-----------------------------|--------------------------------|----------------------|-----------------------|
| | 2015 | 2014 | Net Change |
| CAPITAL ASSETS | | | |
| Land | \$ 16,201,920 | \$ 16,201,920 | \$ - |
| Construction in progress | 15,259 | 410,876 | (395,617) |
| Land improvements | 5,834,876 | 5,626,522 | 208,354 |
| Buildings & improvements | 99,109,775 | 99,079,821 | 29,954 |
| Furniture & equipment | 12,790,258 | 11,802,313 | 987,945 |
| Accumulated depreciation | (63,127,510) | (58,546,150) | (4,581,360) |
| Total Capital Assets | \$ 70,824,578 | \$ 74,575,302 | \$ (3,750,724) |

Long-Term Debt

At year-end, the District had \$135,080,511 in long-term liabilities– as shown below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

| | Governmental Activities | | |
|---|--------------------------------|----------------------|----------------------|
| | 2015 | 2014 | Net Change |
| LONG-TERM LIABILITIES | | | |
| Total general obligation bonds | \$ 41,865,761 | \$ 43,196,334 | \$ (1,330,573) |
| Capital leases | 1,693,228 | 2,320,354 | (627,126) |
| Early retirement incentive | - | 506,006 | (506,006) |
| Compensated absences | 872,745 | 831,403 | 41,342 |
| Net OPEB obligation | 11,979,663 | 10,758,021 | 1,221,642 |
| Net pension liability | 82,020,036 | - | 82,020,036 |
| Less: current portion of long-term debt | (3,350,922) | (3,635,983) | 285,061 |
| Total Long-term Liabilities | \$135,080,511 | \$ 53,976,135 | \$ 81,104,376 |

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The State's economy is expected to grow at a modest rate of about 2%-3% annually over the next two years with little chance of recession, according to the UCLA Anderson Economic Forecast for September 2015. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and remains uncertain.

GASB 68, *Accounting and Financial Reporting for Pensions*, is effective in the 2014-15 fiscal year. The new standard requires the reporting of annual pension cost using an actuarially determined method and a net pension liability is expected to result. The District participates in state employee pension plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2015. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans intend to raise employer rates in future years, and the increased costs could be significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2015-16 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office, La Mesa-Spring Valley School District, 4750 Date Avenue; La Mesa, CA 91942.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 11,420,390 | \$ 807,246 | \$ 12,227,636 |
| Accounts receivable | 6,178,907 | 33,502 | 6,212,409 |
| Internal balances | 338,167 | (338,167) | - |
| Inventory | 202,713 | - | 202,713 |
| Capital assets, not depreciated | 16,217,179 | - | 16,217,179 |
| Capital assets, net of accumulated depreciation | 54,607,399 | - | 54,607,399 |
| Total Assets | 88,964,755 | 502,581 | 89,467,336 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 6,678,106 | - | 6,678,106 |
| Deferred amount on refunding | 1,027,018 | - | 1,027,018 |
| Total Deferred Outflows of Resources | 7,705,124 | - | 7,705,124 |
| LIABILITIES | | | |
| Accrued liabilities | 3,104,671 | 234,370 | 3,339,041 |
| Unearned revenue | 416,892 | - | 416,892 |
| Long-term liabilities, current portion | 3,350,922 | - | 3,350,922 |
| Long-term liabilities, non-current portion | 135,080,511 | - | 135,080,511 |
| Total Liabilities | 141,952,996 | 234,370 | 142,187,366 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 22,561,157 | - | 22,561,157 |
| Total Deferred Inflows of Resources | 22,561,157 | - | 22,561,157 |
| NET POSITION | | | |
| Net investment in capital assets | 35,913,730 | - | 35,913,730 |
| Restricted: | | | |
| Capital projects | 1,016,838 | - | 1,016,838 |
| Debt service | 3,310,459 | - | 3,310,459 |
| Educational programs | 1,638,268 | - | 1,638,268 |
| All others | 1,534,486 | - | 1,534,486 |
| Unrestricted | (111,258,055) | 268,211 | (110,989,844) |
| Total Net Position | \$ (67,844,274) | \$ 268,211 | \$ (67,576,063) |

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

| Function/Programs | Expenses | Program Revenues | | Net (Expenses) Revenues and Changes in Net Position | | Total |
|--|-----------------------|----------------------|------------------------------------|---|--------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Instruction | \$ 69,010,985 | \$ 794 | \$ 9,381,159 | \$ (59,629,032) | \$ - | \$ (59,629,032) |
| Instruction-related services | | | | | | |
| Instructional supervision and administration | 3,188,800 | - | 1,382,857 | (1,805,943) | - | (1,805,943) |
| Instructional library, media, and technology | 2,315,689 | - | 13,163 | (2,302,526) | - | (2,302,526) |
| School site administration | 6,127,112 | - | 48,796 | (6,078,316) | - | (6,078,316) |
| Pupil services | | | | | | |
| Home-to-school transportation | 3,343,982 | - | 198,210 | (3,145,772) | - | (3,145,772) |
| Food services | 5,855,521 | 967,740 | 4,847,084 | (40,697) | - | (40,697) |
| All other pupil services | 7,436,165 | 82,791 | 2,745,160 | (4,608,214) | - | (4,608,214) |
| General administration | | | | | | |
| Centralized data processing | 678,039 | - | - | (678,039) | - | (678,039) |
| All other general administration | 3,560,674 | 82,668 | 297,124 | (3,180,882) | - | (3,180,882) |
| Plant services | 9,672,869 | - | 493,924 | (9,178,945) | - | (9,178,945) |
| Ancillary services | 402,743 | - | 55,409 | (347,334) | - | (347,334) |
| Community services | 1,202,664 | 1,202,460 | 108,656 | 108,452 | - | 108,452 |
| Enterprise activities | 16,784 | 16,724 | 1,487 | 1,427 | - | 1,427 |
| Interest on long-term debt | 1,658,371 | - | - | (1,658,371) | - | (1,658,371) |
| Other Outgo | 313,224 | - | - | (313,224) | - | (313,224) |
| Depreciation (unallocated) | 4,581,360 | - | - | (4,581,360) | - | (4,581,360) |
| Total Governmental Activities | \$ 119,364,982 | \$ 2,353,177 | \$ 19,573,029 | (97,438,776) | | |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Enterprise activities | 4,016,852 | 3,780,493 | 12,341 | | \$ (224,018) | |
| Total Business-Type Activities | 4,016,852 | 3,780,493 | 12,341 | | (224,018) | |
| Total School District | \$ 123,381,834 | \$ 6,133,670 | \$ 19,585,370 | | | \$ (97,662,794) |
| General revenues | | | | | | |
| Taxes and subventions | | | | | | |
| Property taxes, levied for general purposes | | | | 24,802,628 | - | 24,802,628 |
| Property taxes, levied for debt service | | | | 3,254,252 | - | 3,254,252 |
| Property taxes, levied for other specific purposes | | | | 37,909 | - | 37,909 |
| Federal and state aid not restricted for specific purposes | | | | 63,590,855 | - | 63,590,855 |
| Interest and investment earnings | | | | 190,494 | - | 190,494 |
| Interagency revenues | | | | 4,117 | - | 4,117 |
| Miscellaneous | | | | 2,105,399 | 235,210 | 2,340,609 |
| Subtotal, General Revenue | | | | 93,985,654 | 235,210 | 94,220,864 |
| CHANGE IN NET POSITION | | | | | | |
| | | | | (3,453,122) | 11,192 | (3,441,930) |
| Net Position - Beginning, as Restated | | | | | | |
| | | | | (64,391,152) | 257,019 | (64,134,133) |
| Net Position - Ending | | | | | | |
| | | | | \$ (67,844,274) | \$ 268,211 | \$ (67,576,063) |

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

| | General Fund | Cafeteria Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|---------------------|------------------------------------|------------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 5,954,567 | \$ 873,675 | \$ 3,531,334 | \$ 1,060,814 | \$ 11,420,390 |
| Accounts receivable | 5,146,045 | 987,670 | - | 45,192 | 6,178,907 |
| Due from other funds | 823,107 | 50,844 | - | 52,679 | 926,630 |
| Stores inventory | 139,912 | 62,801 | - | - | 202,713 |
| Total Assets | \$ 12,063,631 | \$ 1,974,990 | \$ 3,531,334 | \$ 1,158,685 | \$ 18,728,640 |
| LIABILITIES | | | | | |
| Accrued liabilities | \$ 2,783,713 | \$ 91,738 | \$ - | \$ 8,345 | \$ 2,883,796 |
| Due to other funds | 223,258 | 238,459 | - | 126,746 | 588,463 |
| Unearned revenue | 369,386 | 47,506 | - | - | 416,892 |
| Total Liabilities | 3,376,357 | 377,703 | - | 135,091 | 3,889,151 |
| FUND BALANCES | | | | | |
| Nonspendable | 183,562 | 62,801 | - | - | 246,363 |
| Restricted | 1,631,512 | 1,534,486 | 3,531,334 | 1,023,594 | 7,720,926 |
| Assigned | 2,294,052 | - | - | - | 2,294,052 |
| Unassigned | 4,578,148 | - | - | - | 4,578,148 |
| Total Fund Balances | 8,687,274 | 1,597,287 | 3,531,334 | 1,023,594 | 14,839,489 |
| Total Liabilities and Fund Balances | \$ 12,063,631 | \$ 1,974,990 | \$ 3,531,334 | \$ 1,158,685 | \$ 18,728,640 |

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2015**

Total Fund Balance - Governmental Funds \$ 14,839,489

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

| | | |
|--------------------------|----------------|------------|
| Capital assets | \$ 133,952,088 | |
| Accumulated depreciation | (63,127,510) | 70,824,578 |

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

1,027,018

Unmatured interest on long-term debt:

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 statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:

(220,875)

Long-term liabilities:

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:

| | | |
|--------------------------------|---------------|---------------|
| Total general obligation bonds | \$ 41,865,761 | |
| Capital leases | 1,693,228 | |
| Compensated absences | 872,745 | |
| Net OPEB obligation | 11,979,663 | |
| Net pension liability | 82,020,036 | (138,431,433) |

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

| | | |
|--|--------------|--------------|
| Deferred outflows of resources related to pensions | \$ 6,678,106 | |
| Deferred inflows of resources related to pensions | (22,561,157) | (15,883,051) |

Total Net Position - Governmental Activities \$ (67,844,274)

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

| | General Fund | Cafeteria Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|------------------------------------|------------------------------------|--------------------------------|
| REVENUES | | | | | |
| LCFF sources | \$ 82,494,167 | \$ - | \$ - | \$ - | \$ 82,494,167 |
| Federal sources | 6,011,405 | 5,030,328 | - | 35,315 | 11,077,048 |
| Other state sources | 7,448,297 | 350,976 | 38,909 | 552,838 | 8,391,020 |
| Other local sources | 8,618,875 | 1,047,745 | 3,223,349 | 459,815 | 13,349,784 |
| Total Revenues | 104,572,744 | 6,429,049 | 3,262,258 | 1,047,968 | 115,312,019 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 66,831,775 | - | - | 421,050 | 67,252,825 |
| Instruction-related services | | | | | |
| Instructional supervision and administration | 3,035,545 | - | - | 103,176 | 3,138,721 |
| Instructional library, media, and technology | 2,351,831 | - | - | - | 2,351,831 |
| School site administration | 6,064,233 | - | - | 48,706 | 6,112,939 |
| Pupil services | | | | | |
| Home-to-school transportation | 3,740,998 | - | - | - | 3,740,998 |
| Food services | 10 | 5,923,285 | - | - | 5,923,295 |
| All other pupil services | 7,332,142 | - | - | - | 7,332,142 |
| General administration | | | | | |
| Centralized data processing | 785,083 | - | - | - | 785,083 |
| All other general administration | 3,375,244 | 203,544 | - | 26,702 | 3,605,490 |
| Plant services | 9,691,041 | - | - | 475 | 9,691,516 |
| Facilities acquisition and maintenance | 188,195 | - | - | 197,659 | 385,854 |
| Ancillary services | 402,707 | - | - | - | 402,707 |
| Community services | 1,216,417 | - | - | 1,773 | 1,218,190 |
| Enterprise activities | 303 | 16,481 | - | - | 16,784 |
| Debt service | | | | | |
| Principal | 762,390 | - | 2,390,000 | - | 3,152,390 |
| Interest and other | 225,379 | - | 455,982 | - | 681,361 |
| Total Expenditures | 106,003,293 | 6,143,310 | 2,845,982 | 799,541 | 115,792,126 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,430,549) | 285,739 | 416,276 | 248,427 | (480,107) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | 51,608 | - | - | 51,608 |
| Other sources | 135,264 | - | - | - | 135,264 |
| Transfers out | (51,608) | - | - | - | (51,608) |
| Net Financing Sources (Uses) | 83,656 | 51,608 | - | - | 135,264 |
| NET CHANGE IN FUND BALANCE | (1,346,893) | 337,347 | 416,276 | 248,427 | (344,843) |
| Fund Balance - Beginning | 10,034,167 | 1,259,940 | 3,115,058 | 775,167 | 15,184,332 |
| Fund Balance - Ending | \$ 8,687,274 | \$ 1,597,287 | \$ 3,531,334 | \$ 1,023,594 | \$ 14,839,489 |

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Governmental Funds \$ (344,843)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are 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: | \$ 830,636 | |
| Depreciation expense: | <u>(4,581,360)</u> | (3,750,724) |

Debt service:

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 reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

3,152,390

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(135,264)

Deferred amounts on refunding:

In governmental funds, deferred amounts on refundings are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refundings are amortized over the life of the debt. The net effect of the deferred amounts on refundings during the period was:

(146,717)

Unmatured interest on long-term debt:

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 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:

(84,090)

Continued on next page

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2015**

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (1,083,395)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (41,342)

Other expenditures relating to prior periods:

Certain expenditures recognized in governmental funds relate to prior periods. Typical examples are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations were first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods (describe below) were: 506,006

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (1,221,642)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (327,469)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a 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: 23,968

Change in Net Position of Governmental Activities \$ (3,453,122)

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

| | Business-Type Activities | |
|---------------------------|-------------------------------------|----------------|
| | Child Care Fund | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ | 807,246 |
| Accounts receivable | | 33,502 |
| Due from other funds | | 119,735 |
| Total current assets | | <u>960,483</u> |
| Total Assets | | <u>960,483</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accrued liabilities | | 234,370 |
| Due to other funds | | 457,902 |
| Total current liabilities | | <u>692,272</u> |
| Total Liabilities | | <u>692,272</u> |
| NET POSITION | | |
| Unrestricted | | <u>268,211</u> |
| Total Net Position | \$ | <u>268,211</u> |

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

| | Business-Type Activities |
|--|-------------------------------------|
| | Child Care Fund |
| OPERATING REVENUE | |
| Charges for services | \$ 4,015,703 |
| Other local revenues | 9,487 |
| Total operating revenues | 4,025,190 |
| OPERATING EXPENSE | |
| Salaries and benefits | 3,279,339 |
| Supplies and materials | 62,006 |
| Professional services | 675,507 |
| Total operating expenses | 4,016,852 |
| Operating income/(loss) | 8,338 |
| NON-OPERATING REVENUES/(EXPENSES) | |
| Interest income | 2,854 |
| Total non-operating revenues/(expenses) | 2,854 |
| CHANGE IN NET POSITION | 11,192 |
| Net Position - Beginning | 257,019 |
| Net Position - Ending | \$ 268,211 |

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

| | Business-Type Activities |
|--|-------------------------------------|
| | Child Care Fund |
| Cash flows from operating activities | |
| Cash received from user charges | \$ 3,908,974 |
| Cash payments for payroll, insurance, and operating costs | (3,993,133) |
| Net cash provided by (used for) operating activities | (84,159) |
| Cash flows from investing activities | |
| Interest received | 2,854 |
| Net cash provided by (used for) investing activities | 2,854 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (81,305) |
| CASH AND CASH EQUIVALENTS | |
| Beginning of year | 888,551 |
| End of year | \$ 807,246 |
| Reconciliation of operating income (loss) to cash provided by (used for) operating activities | |
| Operating income (loss) | \$ 8,338 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (32,594) |
| (Increase) decrease in due from other funds | (83,622) |
| Increase (decrease) in accounts payable | 69,970 |
| Increase (decrease) in due to other funds | (46,251) |
| Net cash provided by (used for) operating activities | \$ (84,159) |

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

| | Agency Funds | |
|---------------------------|------------------|-------------------|
| | Peter Pan Fund | Student Body Fund |
| ASSETS | | |
| Cash and cash equivalents | \$ 27,242 | \$ 130,707 |
| Total Assets | \$ 27,242 | \$ 130,707 |
| LIABILITIES | | |
| Due to student groups | \$ - | \$ 130,707 |
| Due to other groups | 27,242 | - |
| Total Liabilities | \$ 27,242 | \$ 130,707 |

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity**

The La Mesa-Spring Valley School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

B. **Component Units**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

The La Mesa-Spring Valley Educational Foundation is a nonprofit organization that supports the La Mesa Spring Valley School District. It was established in 1983 by a group of citizens. The foundation provides a formalized avenue for raising funds to directly support public education in the La Mesa-Spring Valley School District. The La Mesa-Spring Valley Educational Foundation is not a component unit of the La Mesa-Spring Valley School District as it does not meet the criteria noted above.

C. **Basis of Presentation**

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). 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 revenue, and other non-exchange transactions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Government-Wide Statements (*continued*)

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds. Separate statements for each fund category – governmental, proprietary 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 non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds (continued)

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Capital Project Funds (*continued*):

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

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

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Child Care Fund: The District maintains the childcare before and after school (parent paid) program in the Child Care Enterprise Fund.

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Peter Pan Fund: The Peter Pan Fund is an agency fund used to account for activities related to the theater program.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Buildings and Improvements | 25-50 years |
| Furniture and Equipment | 15-20 years |
| Vehicles | 8 years |

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

Compensated Absences

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Fund Balance (*continued*)

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

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

G. Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

H. Budgetary Data

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

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

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

J. New Accounting Pronouncements

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The District has implemented GASB Statement No. 68 for the year ended June 30, 2015.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This standard seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. The Statement is effective for periods beginning after June 15, 2014. The District has implemented GASB Statement No. 71 for the year ended June 30, 2015.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has not yet determined the impact on the financial statements.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard’s primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

| | Total | | | | |
|--|-----------------------|---------------------------|----------------------------|-----------------------------|--------------------|
| | Governmental Funds | Internal Service Funds | Governmental Activities | Business-Type Activities | Fiduciary Funds |
| Cash in county | \$ 11,376,652 | \$ - | \$ 11,376,652 | \$ 807,246 | \$ - |
| Cash on hand and in banks | 88 | - | 88 | - | 157,949 |
| Cash in revolving fund | 43,650 | - | 43,650 | - | - |
| Total cash and cash equivalents | \$ 11,420,390 | \$ - | \$ 11,420,390 | \$ 807,246 | \$ 157,949 |

B. Policies and Practices

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS (*continued*)

B. Policies and Practices (*continued*)

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS (continued)

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$12,190,147 and an amortized book value of \$12,183,898. The average weighted maturity for this pool is 356 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2015, the pooled investments in the County Treasury were rated AAf/S1 by Standard and Poor's.

F. Custodial Credit Risk – Deposits

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

| | General Fund | Cafeteria Fund | Non-Major Governmental Funds | Total Governmental Activities | Total Business- Type Activities |
|---------------------|---------------------|-------------------|------------------------------------|-------------------------------------|------------------------------------|
| Federal Government | | | | | |
| Categorical aid | \$ 2,573,961 | \$ 917,621 | \$ 2,464 | \$ 3,494,046 | \$ - |
| State Government | | | | | |
| Apportionment | - | - | 40,168 | 40,168 | - |
| Categorical aid | 1,096,891 | 65,982 | - | 1,162,873 | - |
| Lottery | 1,035,421 | - | - | 1,035,421 | - |
| Local Government | | | | | |
| Interest | 7,870 | 714 | 1,125 | 9,709 | 745 |
| Other local sources | 431,902 | 3,353 | 1,435 | 436,690 | 32,757 |
| Total | \$ 5,146,045 | \$ 987,670 | \$ 45,192 | \$ 6,178,907 | \$ 33,502 |

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 4 – CAPITAL ASSETS

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

| | Balance July 01, 2014 | Additions | Deletions | Balance June 30, 2015 |
|--|--------------------------|-----------------------|-------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 16,201,920 | \$ - | \$ - | \$ 16,201,920 |
| Construction in progress | 410,876 | 15,259 | 410,876 | 15,259 |
| Total Capital Assets not Being Depreciated | 16,612,796 | 15,259 | 410,876 | 16,217,179 |
| Capital assets being depreciated | | | | |
| Land improvements | 5,626,522 | 208,354 | - | 5,834,876 |
| Buildings & improvements | 99,079,821 | 29,954 | - | 99,109,775 |
| Furniture & equipment | 11,802,313 | 987,945 | - | 12,790,258 |
| Total Capital Assets Being Depreciated | 116,508,656 | 1,226,253 | - | 117,734,909 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 2,822,192 | 179,482 | - | 3,001,674 |
| Buildings & improvements | 48,783,922 | 3,444,349 | - | 52,228,271 |
| Furniture & equipment | 6,940,036 | 957,529 | - | 7,897,565 |
| Total Accumulated Depreciation | 58,546,150 | 4,581,360 | - | 63,127,510 |
| Governmental Activities | | | | |
| Capital Assets, net | \$ 74,575,302 | \$ (3,339,848) | \$ 410,876 | \$ 70,824,578 |

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2015 were as follows:

| Due To Other Funds | Due From Other Funds | | | | | Total |
|-----------------------------------|----------------------|------------------|------------------------------------|-------------------------------|--|---------------------|
| | General Fund | Cafeteria Fund | Non-Major Governmental Funds | Child Care Enterprise Fund | | |
| General Fund | \$ - | \$ 50,844 | \$ 52,679 | \$ 119,735 | | \$ 223,258 |
| Cafeteria Fund | 238,459 | - | - | - | | 238,459 |
| Non-Major Governmental Funds | 126,746 | - | - | - | | 126,746 |
| Child Care Enterprise Fund | 457,902 | - | - | - | | 457,902 |
| Total Due From Other Funds | \$ 823,107 | \$ 50,844 | \$ 52,679 | \$ 119,735 | | \$ 1,046,365 |

| | |
|--|---------------------|
| Due from Child Care Enterprise Fund to General Fund for square footage and custodial expenses. | \$ 457,902 |
| Due from Cafeteria Fund to General Fund for space and OPEB. | 238,459 |
| Due from Child Development Fund to General Fund for expenditures. | 113,016 |
| Due from Capital Facilities Fund to General Fund for expenditures. | 13,730 |
| Due from General Fund to Child Care Enterprise Fund for ASES. | 119,735 |
| Due from General Fund to Capital Facilities Fund for expenditures. | 52,679 |
| Due from General Fund to Cafeteria Fund for student charges. | 50,844 |
| Total | \$ 1,046,365 |

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 5 – INTERFUND TRANSACTIONS (continued)

Interfund Transfers

During the year ended June 30, 2015, the General Fund transferred \$51,608 to the Cafeteria Fund for student charges.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2015 consisted of the following:

| | General Fund | Cafeteria Fund | Non-Major Governmental Funds | District-Wide | Total Governmental Activities | Total Business- Type Activities |
|--------------------|---------------------|------------------|------------------------------------|-------------------|-------------------------------------|------------------------------------|
| Payroll | \$ 1,001,513 | \$ 46,498 | \$ 7,976 | \$ - | \$ 1,055,987 | \$ 216,988 |
| Vendors payable | 1,782,200 | 45,240 | 369 | - | 1,827,809 | 17,382 |
| Unmatured interest | - | - | - | 220,875 | 220,875 | - |
| Total | \$ 2,783,713 | \$ 91,738 | \$ 8,345 | \$ 220,875 | \$ 3,104,671 | \$ 234,370 |

NOTE 7 – UNEARNED REVENUE

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

| | General Fund | Cafeteria Fund | Total Governmental Activities |
|-----------------|-------------------|------------------|-------------------------------------|
| Federal sources | \$ 369,386 | \$ - | \$ 369,386 |
| Local sources | - | 47,506 | 47,506 |
| Total | \$ 369,386 | \$ 47,506 | \$ 416,892 |

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES

In July 2014, the District issued \$7,855,000 of Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Repayment terms required that the amounts be deposited with the Fiscal Agent, where half of the payment was due by January 2015, and the remaining half was due by April 2015. By June 30, 2015, the District had paid off the notes in full.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015**

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2015 consisted of the following:

| | Restated Balance | | | Balance | | Balance Due |
|--------------------------------|-----------------------|---------------------|----------------------|-----------------------|---------------------|-------------|
| | July 01, 2014 | Additions | Deductions | June 30, 2015 | In One Year | |
| Governmental Activities | | | | | | |
| General obligation bonds | \$ 35,439,848 | \$ - | \$ 2,390,000 | \$ 33,049,848 | \$ 2,625,000 | |
| Unamortized premium | 191,740 | - | 23,968 | 167,772 | 23,968 | |
| Accreted interest | 7,564,746 | 1,083,395 | - | 8,648,141 | - | |
| Total general obligation bonds | 43,196,334 | 1,083,395 | 2,413,968 | 41,865,761 | 2,648,968 | |
| Capital leases | 2,320,354 | 135,264 | 762,390 | 1,693,228 | 701,954 | |
| Early retirement incentive | 506,006 | - | 506,006 | - | - | |
| Compensated absences | 831,403 | 41,342 | - | 872,745 | - | |
| Net OPEB obligation | 10,758,021 | 1,221,642 | - | 11,979,663 | - | |
| Net pension liability | 103,592,004 | - | 21,571,968 | 82,020,036 | - | |
| Total | \$ 161,204,122 | \$ 2,481,643 | \$ 25,254,332 | \$ 138,431,433 | \$ 3,350,922 | |

Payments for bonds associated with general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments for capital lease obligations are made in the General Fund.

Payments for early retirement incentive are made in the General Fund.

Payments for accumulated vacation are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2015 amounted to \$872,745. This amount is included as part of long-term liabilities in the government-wide financial statements.

NOTE 9 – LONG-TERM DEBT (*continued*)

B. General Obligation Bonds

On March 5, 2002, the voters of the La Mesa-Spring Valley School District approved by more than 55% Proposition M, authorizing the issuance and sale of \$44,000,000 of general obligation bonds. On June 26, 2002, the District issued Series A of the Election of 2002 General Obligation Bonds in the amount of \$31,330,140. On March 9, 2005, the District refunded a portion of the Series A bonds and issued Series B bonds. On March 26, 2014, the District issued 2014 Series A and B Refunding Bonds to refund a portion of the 2005 bonds.

- The remaining outstanding 2005 General Obligation Refunding Bonds consist of current interest serial bonds of \$5,155,000 with stated interest rates ranging from 3.75% to 4.50% and fully maturing on August 1, 2021. The principal balance outstanding as of June 30, 2015 is \$3,060,000.
- The 2002 General Obligation Series B bond issue consists of: (a) current interest serial bonds of \$240,000 with a stated interest rate of 3.0% and fully maturing on August 1, 2005; and, (b) capital appreciation serial bonds of \$12,429,709 with a yield ranging from 4.9% to 5.2% and fully maturing on August 1, 2028. The balance outstanding as of June 30, 2015 is \$20,563,469, which includes accreted interest on the capital appreciation bonds.
- The remaining outstanding 2002 General Obligation Series A bond issue consists of capital appreciation serial bonds of \$440,140 with a yield of 5.71% and fully maturing on February 1, 2027. The balance outstanding as of June 30, 2015 is \$954,520, which includes accreted interest.
- The 2014 Series A General Obligation Refunding Bonds consist of tax-exempt current interest serial bonds of \$5,465,000 with stated interest rates ranging from 2.0% to 3.0% and fully maturing on August 1, 2021. The principal balance outstanding as of June 30, 2015 is \$5,375,000.
- The 2014 Series B General Obligation Refunding Bonds consist of current interest serial bonds of \$11,950,000 with stated interest rates ranging from 0.657% to 3.349% and fully maturing on August 1, 2020. The principal balance outstanding as of June 30, 2015 is \$11,745,000.

The net proceeds received for the 2014 Series A and Series B Refunding Bonds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the 2005 General Obligation Bonds that were advance refunded. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's financial statements. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized as an expense over the life of the bond. Deferred charges on refunding of \$1,173,735 remain to be amortized. This refunding reduced total debt service payments by \$650,097 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$606,442. As of June 30, 2015, the principal balance outstanding on the defeased debt amounted to \$16,180,000 and the principal balance on the 2014 Series A and B Refunding Bonds amounted to \$17,120,000.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 9 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable outstanding at June 30, 2015 were as follows:

| Year Ended June 30, | Principal* | Interest | Total |
|---------------------|---------------|---------------|---------------|
| 2016 | \$ 2,625,000 | \$ 481,669 | \$ 3,106,669 |
| 2017 | 2,870,000 | 411,484 | 3,281,484 |
| 2018 | 3,065,000 | 360,298 | 3,425,298 |
| 2019 | 3,280,000 | 294,112 | 3,574,112 |
| 2020 | 3,525,000 | 209,663 | 3,734,663 |
| 2021 - 2025 | 11,317,583 | 9,682,119 | 20,999,702 |
| 2026 - 2029 | 6,367,265 | 14,117,735 | 20,485,000 |
| Total | \$ 33,049,848 | \$ 25,557,080 | \$ 58,606,928 |

* Principal balance does not include accreted interest of \$8,648,141 at June 30, 2015.

C. Capital Leases

The District has entered into various capital leases for copiers, equipment, vehicles, and computer hardware and software. Future minimum lease payments under these agreements are as follows:

| Year Ended June 30, | Lease Payment |
|---|---------------|
| 2016 | \$ 730,821 |
| 2017 | 491,925 |
| 2018 | 445,543 |
| 2019 | 85,480 |
| Total minimum lease payments | 1,753,769 |
| Less amount representing interest | (60,541) |
| Present value of minimum lease payments | \$ 1,693,228 |

D. Early Retirement Incentive

In April 2008 the District entered into a PARS supplementary retirement plan in which 32 certificated employees and 34 classified employees elected for early retirement in exchange for early retirement incentive payments. In April 2010 the District entered into a PARS supplementary retirement plan in which 52 certificated employees elected to take the early retirement incentive. As of June 30, 2015, the outstanding balance had been paid in full.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 9 – LONG-TERM DEBT (continued)

E. Net Pension Liability

The District follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The District’s restated beginning net pension liability was \$103,592,004, and decreased by \$21,571,968 during the year ended June 30, 2015. The ending net pension liability at June 30, 2015 was \$82,020,036. See Note 12 for additional information regarding the net pension liability.

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2015:

| | General Fund | Cafeteria Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|------------------------------------|---------------------|---------------------|---------------------------------|------------------------------|--------------------------|
| Non-spendable | | | | | |
| Revolving cash | \$ 43,650 | \$ - | \$ - | \$ - | \$ 43,650 |
| Stores inventory | 139,912 | 62,801 | - | - | 202,713 |
| Total non-spendable | 183,562 | 62,801 | - | - | 246,363 |
| Restricted | | | | | |
| Educational programs | 1,631,512 | - | - | 6,756 | 1,638,268 |
| Capital projects | - | - | - | 1,016,838 | 1,016,838 |
| Debt service | - | - | 3,531,334 | - | 3,531,334 |
| All others | - | 1,534,486 | - | - | 1,534,486 |
| Total restricted | 1,631,512 | 1,534,486 | 3,531,334 | 1,023,594 | 7,720,926 |
| Assigned | | | | | |
| Site donations and mini-grants | 227,052 | - | - | - | 227,052 |
| Additional board reserve | 2,067,000 | - | - | - | 2,067,000 |
| Total assigned | 2,294,052 | - | - | - | 2,294,052 |
| Unassigned | | | | | |
| Reserve for economic uncertainties | 4,285,205 | - | - | - | 4,285,205 |
| Remaining unassigned | 292,943 | - | - | - | 292,943 |
| Total unassigned | 4,578,148 | - | - | - | 4,578,148 |
| Total | \$ 8,687,274 | \$ 1,597,287 | \$ 3,531,334 | \$ 1,023,594 | \$ 14,839,489 |

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy targets a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses, inclusive of the minimum required by California Education Code. The District also assigns an additional 2 percent reserve.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The 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 2009-10.

Membership of the plan as of the January 1, 2015 actuarial study consisted of the following:

| | |
|---|--------------|
| Retirees and beneficiaries receiving benefits | 141 |
| Active plan members | 971 |
| Total* | <u>1,112</u> |
| Number of participating employers | 1 |

*As of January 1, 2015 actuarial study

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. The District provides medical benefits at the same level they are receiving at the time of retirement for a period of up to age 65 or Medicare eligibility, if earlier, except in the case of some individual employment contracts which provide lifetime medical benefits.

B. Funding Policy

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. For fiscal year 2014-15, the District contributed \$1,501,126.

As of June 30, 2015, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

C. Annual OPEB Cost and Net OPEB Obligation

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. 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 to the Plan:

| | |
|--|----------------------|
| Annual required contribution | \$ 2,914,584 |
| Interest on net OPEB obligation | 430,321 |
| Adjustment to annual required contribution | <u>(622,137)</u> |
| Annual OPEB cost (expense) | 2,722,768 |
| Contributions made | <u>(1,501,126)</u> |
| Increase (decrease) in net OPEB obligation | 1,221,642 |
| Net OPEB obligation, beginning of the year | <u>10,758,021</u> |
| Net OPEB obligation, end of the year | <u>\$ 11,979,663</u> |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2015 and the preceding two years were as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|---------------------|------------------------|---------------------------|------------------------|
| 2015 | \$ 2,722,768 | 55% | \$ 11,979,663 |
| 2014 | \$ 3,446,260 | 46% | \$ 10,758,021 |
| 2013 | \$ 2,841,625 | 44% | \$ 8,899,945 |

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

| Actuarial Valuation Date | Actuarial Valuation of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|----------------------------------|--|---------------------------|--------------|--------------------|---|
| January 1, 2015 | \$ - | \$ 27,160,440 | \$ 27,160,440 | 0% | \$ 68,895,080 | 39% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2015

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (*continued*)

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|-----------------------|
| Valuation Date | 1/1/2015 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level-Dollar Basis |
| Remaining Amortization Period | 30 years |
| Actuarial Assumptions: | |
| Investment rate of return | 4.0% |
| Discount rate | 4.0% |
| Health care trend rate | 5.0-6.5% |
| Dental and vision trend rate | 4.0% |

NOTE 12 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District recognized \$7,005,574 for their proportionate share of pension expense for the year ended June 30, 2015.

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

CalSTRS 2% at 60

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

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Contributions

Active plan members are required to contribute 8.15% of their salary for fiscal year 2015 and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2015 was 8.88% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$4,456,783 for the year ended June 30, 2015.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,675,402 to CalSTRS (5.679% of 2012-13 creditable compensation subject to CalSTRS).

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|----------------|
| District's proportionate share of the net pension liability | \$ 62,830,893 |
| States's proportionate share of the net pension liability associated with the District | 37,940,006 |
| Total | \$ 100,770,899 |

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District’s proportion was 0.108 percent, which did not change from its proportion measured as of June 30, 2013.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$5,423,942. In addition, the District recognized pension expense and revenue of \$3,275,243 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between projected and actual earnings on plan investments | \$ - | \$ 15,471,988 |
| District contributions subsequent to the measurement date | 4,456,783 | - |
| | <u>\$ 4,456,783</u> | <u>\$ 15,471,988</u> |

\$4,456,783 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | <u>Deferred Inflows of Resources</u> |
|----------------------------|--|
| 2016 | \$ 3,867,997 |
| 2017 | 3,867,997 |
| 2018 | 3,867,997 |
| 2019 | 3,867,997 |
| | <u>\$ 15,471,988</u> |

Actuarial assumptions

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

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (*continued*)

California State Teachers’ Retirement System (CalSTRS) (*continued*)

Actuarial assumptions (*continued*)

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

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

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

| Asset Class | Assumed Asset Allocation | Long-Term* Expected Real Rate of Return |
|---------------------|-------------------------------------|--|
| Global Equity | 47% | 4.50% |
| Private Equity | 12% | 6.20% |
| Real Estate | 15% | 4.35% |
| Inflation Sensitive | 5% | 3.20% |
| Fixed Income | 20% | 0.20% |
| Cash/Liquidity | 1% | 0.00% |
| | 100% | |

* 10-year geometric average

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Discount rate

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

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

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

| | 1% Decrease (6.60%) | Current Discount Rate (7.60%) | 1% Increase (8.60%) |
|--|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$ 97,936,930 | \$ 62,830,893 | \$ 33,558,838 |

Pension plan fiduciary net position

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

NOTE 12 – PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2015 was 11.771% of annual payroll. Contributions to the plan from the District were \$2,221,323 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$19,189,143 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.169 percent, which decreased by 0.004 percent from its proportion measured as of June 30, 2013.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$1,581,632. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between projected and actual earnings on plan investments | \$ - | \$ 6,593,604 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 495,565 |
| District contributions subsequent to the measurement date | 2,221,323 | - |
| | <u>\$ 2,221,323</u> | <u>\$ 7,089,169</u> |

\$2,221,323 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | <u>Deferred Inflows of Resources</u> |
|----------------------------|--|
| 2016 | \$ 1,772,292 |
| 2017 | 1,772,292 |
| 2018 | 1,772,292 |
| 2019 | 1,772,293 |
| | <u>\$ 7,089,169</u> |

Actuarial assumptions

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

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (*continued*)

California Public Employees’ Retirement System (CalPERS) (*continued*)

Actuarial assumptions (*continued*)

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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

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

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Real Return Years 1-10*</u> | <u>Real Return Years 11+**</u> |
|-------------------------------|---------------------------------|--------------------------------|--------------------------------|
| Global Equity | 47% | 5.25% | 5.71% |
| Global Fixed Income | 19% | 0.99% | 2.43% |
| Inflation Sensitive | 6% | 0.45% | 3.36% |
| Private Equity | 12% | 6.83% | 6.95% |
| Real Estate | 11% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3% | 4.50% | 5.09% |
| Liquidity | 2% | -0.55% | -1.05% |
| | <u>100%</u> | | |

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 12 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$ 33,662,137 | \$ 19,189,143 | \$ 7,095,497 |

Pension plan fiduciary net position

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Construction Commitments

As of June 30, 2015, the District had commitments with respect to unfinished capital projects of \$624,786.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The La Mesa-Spring Valley School District participates in two joint ventures under joint powers agreement (JPA), the San Diego County Schools Risk Management JPA (RM) and Facilities Joint Powers Authority (FACJPA). The relationship between the District and the JPA's is such that the JPA's are not a component unit of the District for financial reporting purposes.

The RM JPA arranges for and provides workers' compensation, health, and property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA 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 JPA.

The FAC JPA consists of other districts within the county and the San Diego County Office of Education. The JPA is intended to provide members with the opportunity to achieve planning and construction savings by pooling the resources of its members and providing efficiencies and economies of scale which would potentially be unavailable if the members undertook planning and construction projects on an individual basis. The JPA also strives to develop alliances with SDCOE, Division of the State Architect, and the Office of Public School Construction.

The FAC JPA provides management of facilities planning and construction and expertise on a range of facilities and construction needs from technical support to master planning construction projects. Contracts for FACJPA services are negotiated on a case by case basis when the district utilizes FACJPA services.

Condensed audited financial information for the most currently available year is available from the JPA.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2015, the deferred amount on refunding was \$1,027,018.

Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*, the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements. The District’s deferred outflows and inflows of resources related to pensions were as follows at June 30, 2015:

| | Deferred outflows related to pensions | Deferred inflows related to pensions |
|--------------|--|---|
| STRS Pension | \$ 4,456,783 | \$ 15,471,988 |
| PERS Pension | 2,221,323 | 7,089,169 |
| Total | \$ 6,678,106 | \$ 22,561,157 |

NOTE 16 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District’s proportionate share of net pension liability and deferred outflows of resources related to pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The effect on beginning net position is presented as follows:

| | Governmental Activities |
|--|------------------------------------|
| Net Position - Beginning, as Previously Reported | \$ 33,184,466 |
| Restatement | (97,575,618) |
| Net Position - Beginning, as Restated | \$ (64,391,152) |

NOTE 17 – SUBSEQUENT EVENT

The District issued \$11,705,000 of TRANs dated September 10, 2015. The notes mature on June 30, 2016, and yield a 2.00% interest rate. The notes were sold to supplement cash flow. Repayment terms require that the amounts be deposited with the Fiscal Agent, where half of the payment will be due by January 2016, and the remaining half will be due by April 2016.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

| | Budgeted Amounts | | Actual* (Budgetary Basis) | Variances - Final to Actual |
|--|---------------------|---------------------|------------------------------|--------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| LCFF sources | \$ 81,554,932 | \$ 82,109,818 | \$ 82,494,167 | \$ 384,349 |
| Federal sources | 5,659,997 | 6,197,804 | 6,011,405 | (186,399) |
| Other state sources | 3,143,900 | 3,998,669 | 4,772,895 | 774,226 |
| Other local sources | 7,368,725 | 8,176,692 | 8,614,805 | 438,113 |
| Total Revenues | 97,727,554 | 100,482,983 | 101,893,272 | 1,410,289 |
| EXPENDITURES | | | | |
| Certificated salaries | 48,519,313 | 50,246,667 | 50,365,437 | (118,770) |
| Classified salaries | 16,262,963 | 17,112,487 | 17,140,474 | (27,987) |
| Employee benefits | 19,391,978 | 20,369,259 | 19,695,797 | 673,462 |
| Books and supplies | 7,106,199 | 8,417,305 | 7,060,286 | 1,357,019 |
| Services and other operating expenditures | 6,778,606 | 8,604,655 | 7,689,478 | 915,177 |
| Capital outlay | 135,347 | 890,528 | 660,377 | 230,151 |
| Other outgo | | | | |
| Excluding transfers of indirect costs | 509,446 | 835,291 | 797,294 | 37,997 |
| Transfers of indirect costs | (220,869) | (220,869) | (216,516) | (4,353) |
| Total Expenditures | 98,482,983 | 106,255,323 | 103,192,627 | 3,062,696 |
| Excess (Deficiency) of Revenues Over Expenditures | (755,429) | (5,772,340) | (1,299,355) | 4,472,985 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 32,743 | 67,105 | 84,482 | 17,377 |
| Transfers out | (121,718) | (121,718) | (157,385) | (35,667) |
| Net Financing Sources (Uses) | (88,975) | (54,613) | (72,903) | (18,290) |
| NET CHANGE IN FUND BALANCE | (844,404) | (5,826,953) | (1,372,258) | 4,454,695 |
| Fund Balance - Beginning | 7,206,999 | 8,874,827 | 8,874,827 | - |
| Fund Balance - Ending | \$ 6,362,595 | \$ 3,047,874 | \$ 7,502,569 | \$ 4,454,695 |

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$2,675,402 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
CAFETERIA FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variances - Final to Actual |
|---|---------------------|---------------------|-----------------------------|--------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Federal sources | \$ 4,870,188 | \$ 4,870,188 | \$ 5,030,328 | \$ 160,140 |
| Other state sources | 343,416 | 360,898 | 350,976 | (9,922) |
| Other local sources | 776,547 | 776,547 | 1,047,745 | 271,198 |
| Total Revenues | 5,990,151 | 6,007,633 | 6,429,049 | 421,416 |
| EXPENDITURES | | | | |
| Classified salaries | 2,002,057 | 2,142,342 | 2,124,555 | 17,787 |
| Employee benefits | 930,348 | 970,479 | 920,072 | 50,407 |
| Books and supplies | 2,721,293 | 2,706,046 | 2,875,098 | (169,052) |
| Services and other operating expenditures | (345) | 23,193 | 13,617 | 9,576 |
| Capital outlay | 25,000 | 25,000 | 6,424 | 18,576 |
| Other outgo | | | | |
| Transfers of indirect costs | 200,318 | 200,318 | 203,544 | (3,226) |
| Total Expenditures | 5,878,671 | 6,067,378 | 6,143,310 | (75,932) |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | 111,480 | (59,745) | 285,739 | 345,484 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | 51,608 | 51,608 |
| Net Financing Sources (Uses) | - | - | 51,608 | 51,608 |
| NET CHANGE IN FUND BALANCE | | | | |
| Fund Balance - Beginning | 1,259,940 | 1,259,940 | 1,259,940 | - |
| Fund Balance - Ending | \$ 1,371,420 | \$ 1,200,195 | \$ 1,597,287 | \$ 397,092 |

See accompanying note to required supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2015**

| Actuarial Valuation Date | Actuarial Valuation of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|--|------------------------------------|---------------------|----------------------------|--|
| January 1, 2015 | \$ - | \$ 27,160,440 | \$ 27,160,440 | 0% | \$ 68,895,080 | 39% |
| July 1, 2013 | \$ - | \$ 31,952,016 | \$ 31,952,016 | 0% | \$ 68,910,407 | 46% |
| July 1, 2011 | \$ - | \$ 23,972,309 | \$ 23,972,309 | 0% | \$ 66,898,045 | 36% |

See accompanying note to required supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALSTRS
FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>June 30, 2015</u> |
|---|-----------------------|
| District's proportion of the net pension liability | 0.108% |
| District's proportionate share of the net pension liability | \$ 62,830,893 |
| States's proportionate share of the net pension liability associated with the District | 37,940,006 |
| Total | <u>\$ 100,770,899</u> |
| District's covered-employee payroll | \$ 50,079,904 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 125.5% |
| Plan fiduciary net position as a percentage of the total pension liability. | 76.5% |

See accompanying note to required supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
 CALPERS
 FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>June 30, 2015</u> |
|---|----------------------|
| District's proportion of the net pension liability | 0.169% |
| District's proportionate share of the net pension liability | \$ 19,189,143 |
| District's covered-employee payroll | \$ 18,815,176 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 102.0% |
| Plan fiduciary net position as a percentage of the total pension liability. | 83.4% |

See accompanying note to required supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
 FOR THE YEAR ENDED JUNE 30, 2015

| | <u>June 30, 2015</u> |
|--|----------------------|
| Contractually required contribution | \$ 4,456,783 |
| Contributions in relation to the contractually required contribution* | (4,456,783) |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered-employee payroll | \$ 50,079,904 |
| Contributions as a percentage of covered-employee payroll | 8.90% |

*Amounts do not include on behalf contributions

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
 FOR THE YEAR ENDED JUNE 30, 2015

| | <u>June 30, 2015</u> |
|---|----------------------|
| Contractually required contribution | \$ 2,221,323 |
| Contributions in relation to the contractually required contribution | (2,221,323) |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered-employee payroll | \$ 18,815,176 |
| Contributions as a percentage of covered-employee payroll | 11.81% |

See accompanying note to required supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

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.

Schedule of the District's Proportionate Share of the Net Pension Liability

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2015, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

| | Expenditures and Other Uses | | |
|--------------------------------|------------------------------------|---------------|---------------|
| | Budget | Actual | Excess |
| General Fund | | | |
| Certificated salaries | \$ 50,246,667 | \$ 50,365,437 | \$ 118,770 |
| Classified salaries | \$ 17,112,487 | \$ 17,140,474 | \$ 27,987 |
| Cafeteria Special Revenue Fund | | | |
| Books and supplies | \$ 2,706,046 | \$ 2,875,098 | \$ 169,052 |
| Other outgo | | | |
| Transfers of indirect costs | \$ 200,318 | \$ 203,544 | \$ 3,226 |

**SUPPLEMENTARY
INFORMATION**

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u> | <u>CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------|---|---------------------------------|
| U. S. DEPARTMENT OF EDUCATION: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | \$ 2,226,693 |
| Title II, Part A, Teacher Quality | 84.367A | 14341 | 432,374 |
| Title III Cluster | | | |
| Title III, Limited English Proficient (LEP) Student Program | 84.365 | 14346 | 2,354 |
| Title III, Immigrant Education Program | 84.365 | 15146 | 238,124 |
| Subtotal Title III Cluster | | | <u>240,478</u> |
| Title VIII, Impact Aid | 84.041 | 10015 | 43,998 |
| IDEA Basic Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 2,032,019 |
| IDEA Mental Health Allocation Plan, Part B, Sec 611 | 84.027 | 14468 | 57,917 |
| Part B, Preschool Grants | 84.173 | 13430 | 160,591 |
| IDEA Preschool Local Entitlement, Part B, Sec 611 | 84.027A | 13682 | 275,849 |
| Preschool Staff Development | 84.173A | 13431 | 1,013 |
| Subtotal Special Education Cluster | | | <u>2,527,389</u> |
| IDEA Early Intervention Grants | 84.181 | 23761 | 24,934 |
| Total U. S. Department of Education | | | <u>5,495,866</u> |
| U. S. DEPARTMENT OF AGRICULTURE: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program, Severe Need | 10.553 | 13526 | 759,537 |
| National School Lunch Program | 10.555 | 13391 | 3,241,736 |
| Meal Supplements (After-School Snacks) | 10.555 | * | 84,208 |
| USDA Commodities | 10.555 | * | 360,192 |
| Summer Food Service Program for Children | 10.559 | 13004 | 69,072 |
| Subtotal Child Nutrition Cluster | | | <u>4,514,745</u> |
| Child and Adult Care Food Program | 10.558 | 13666 | 515,583 |
| Total U. S. Department of Agriculture | | | <u>5,030,328</u> |
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| CCDF, General Child Development Program | 93.596 | 13609 | 35,315 |
| <i>Passed through California Department of Health Services:</i> | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 125,775 |
| Medi-Cal Administrative Activities | 93.778 | 10060 | 151,141 |
| Subtotal Medicaid Cluster | | | <u>276,916</u> |
| Total U. S. Department of Health & Human Services | | | <u>312,231</u> |
| Total Federal Expenditures | | | <u>\$ 10,838,425</u> |

* - Pass-Through Entity Identifying Number not available or not applicable

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2015**

| | Second Period Report | Annual Report |
|---|-------------------------------------|--------------------------|
| SCHOOL DISTRICT | | |
| TK/K through Third | | |
| Regular ADA | 5,417.68 | 5,431.93 |
| Extended Year Special Education | 4.41 | 4.41 |
| Special Education - Nonpublic Schools | 2.40 | 2.64 |
| Extended Year Special Education - Nonpublic Schools | 0.15 | 0.15 |
| Total TK/K through Third | 5,424.64 | 5,439.13 |
| Fourth through Sixth | | |
| Regular ADA | 3,829.58 | 3,832.96 |
| Extended Year Special Education | 3.58 | 3.58 |
| Special Education - Nonpublic Schools | 6.11 | 5.79 |
| Extended Year Special Education - Nonpublic Schools | 0.53 | 0.53 |
| Community Day School | 3.65 | 3.98 |
| Total Fourth through Sixth | 3,843.45 | 3,846.84 |
| Seventh through Eighth | | |
| Regular ADA | 2,334.22 | 2,339.14 |
| Extended Year Special Education | 0.94 | 0.94 |
| Special Education - Nonpublic Schools | 7.38 | 7.28 |
| Extended Year Special Education - Nonpublic Schools | 0.54 | 0.54 |
| Community Day School | 15.73 | 17.78 |
| Total Seventh through Eighth | 2,358.81 | 2,365.68 |
| TOTAL SCHOOL DISTRICT | 11,626.90 | 11,651.65 |

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015**

| Grade Level | Minutes Requirement | Minutes Requirement Reduced | 2014-15 Actual Minutes | Number of Days | Status |
|--------------------|----------------------------|------------------------------------|-------------------------------|-----------------------|---------------|
| Kindergarten | 36,000 | 35,000 | 54,325 | 180 | Complied |
| Grade 1 | 50,400 | 49,000 | 54,325 | 180 | Complied |
| Grade 2 | 50,400 | 49,000 | 54,325 | 180 | Complied |
| Grade 3 | 50,400 | 49,000 | 54,325 | 180 | Complied |
| Grade 4 | 54,000 | 52,500 | 54,325 | 180 | Complied |
| Grade 5 | 54,000 | 52,500 | 54,325 | 180 | Complied |
| Grade 6 | 54,000 | 52,500 | 54,325 | 180 | Complied |
| Grade 7 | 54,000 | 52,500 | 62,700 | 180 | Complied |
| Grade 8 | 54,000 | 52,500 | 62,700 | 180 | Complied |

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

| | 2016 (Budget) | 2015 | 2014*** | 2013 |
|--|----------------------|----------------|----------------|----------------|
| General Fund - Budgetary Basis** | | | | |
| Revenues And Other Financing Sources | \$ 117,326,244 | \$ 101,977,754 | \$ 96,421,136 | \$ 90,300,914 |
| Expenditures And Other Financing Uses | 111,835,665 | 103,350,012 | 98,429,492 | 91,878,889 |
| Net change in Fund Balance | \$ 5,490,579 | \$ (1,372,258) | \$ (2,008,356) | \$ (1,577,975) |
| Ending Fund Balance | \$ 12,993,148 | \$ 7,502,569 | \$ 8,874,827 | \$ 10,883,183 |
| Available Reserves* | \$ 5,681,061 | \$ 4,578,148 | \$ 3,928,949 | \$ 2,756,367 |
| Available Reserves As A Percentage Of Outgo | 5.08% | 4.43% | 3.99% | 3.00% |
| Long-term Debt | \$ 135,080,511 | \$ 138,431,433 | \$ 57,612,118 | \$ 53,419,087 |
| Average Daily Attendance At P-2 | 11,627 | 11,627 | 11,562 | 11,511 |

The General Fund balance has decreased by \$3,380,614 over the past two years. The fiscal year 2015-16 budget projects an increase of \$5,490,579. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in each of the past three years but anticipates incurring an operating surplus during the 2015-16 fiscal year. Total long term obligations have increased by \$85,012,346 over the past two years.

Average daily attendance has increased by 116 ADA over the past two years. No change in ADA is anticipated during the 2015-16 fiscal year.

* Available reserves consist of all unassigned fund balance within the General Fund and the Special Reserve Fund for other than Capital Outlay Projects.

** The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54. On behalf payments of \$2,675,402 are also not included in the revenues and expenditures reported in this schedule.

*** 2014 revenues and other financing sources were updated to include audit adjustment from prior year

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

| | General Fund | Special Reserve Fund for Other Than Capital Outlay Projects |
|--|-------------------------|--|
| June 30, 2015, annual financial and budget report fund balance | \$ 7,502,569 | \$ 1,184,705 |
| Adjustments and reclassifications: | | |
| Increase (decrease) in total fund balances: | | |
| Fund balance transfer (GASB 54) | 1,184,705 | (1,184,705) |
| Net adjustments and reclassifications | 1,184,705 | (1,184,705) |
| June 30, 2015, audited financial statement fund balance | \$ 8,687,274 | \$ - |

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2015

| | Child Development Fund | Building Fund | Capital Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds |
|---|------------------------------|---------------|----------------------------|--|------------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 85,323 | \$ - | \$ 950,146 | \$ 25,345 | \$ 1,060,814 |
| Accounts receivable | 42,794 | - | 2,373 | 25 | 45,192 |
| Due from other funds | - | - | 52,679 | - | 52,679 |
| Total Assets | \$ 128,117 | \$ - | \$ 1,005,198 | \$ 25,370 | \$ 1,158,685 |
| LIABILITIES | | | | | |
| Accrued liabilities | \$ 8,345 | \$ - | \$ - | \$ - | \$ 8,345 |
| Due to other funds | 113,016 | - | 13,730 | - | 126,746 |
| Total Liabilities | 121,361 | - | 13,730 | - | 135,091 |
| FUND BALANCES | | | | | |
| Restricted | 6,756 | - | 991,468 | 25,370 | 1,023,594 |
| Total Fund Balances | 6,756 | - | 991,468 | 25,370 | 1,023,594 |
| Total Liabilities and Fund Balance | \$ 128,117 | \$ - | \$ 1,005,198 | \$ 25,370 | \$ 1,158,685 |

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

| | Child Development Fund | Building Fund | Capital Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds |
|--|------------------------------|----------------|----------------------------|--|------------------------------------|
| REVENUES | | | | | |
| Federal sources | \$ 35,315 | \$ - | \$ - | \$ - | \$ 35,315 |
| Other state sources | 552,838 | - | - | - | 552,838 |
| Other local sources | 444 | - | 459,269 | 102 | 459,815 |
| Total Revenues | 588,597 | - | 459,269 | 102 | 1,047,968 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 421,050 | - | - | - | 421,050 |
| Instruction-related services | | | | | |
| Instructional supervision and administration | 103,176 | - | - | - | 103,176 |
| School site administration | 48,706 | - | - | - | 48,706 |
| General administration | | | | | |
| All other general administration | 12,972 | - | 13,730 | - | 26,702 |
| Plant services | 475 | - | - | - | 475 |
| Facilities acquisition and maintenance | - | 9,132 | 188,527 | - | 197,659 |
| Community services | 1,773 | - | - | - | 1,773 |
| Total Expenditures | 588,152 | 9,132 | 202,257 | - | 799,541 |
| Excess (Deficiency) of Revenues Over Expenditures | 445 | (9,132) | 257,012 | 102 | 248,427 |
| NET CHANGE IN FUND BALANCE | 445 | (9,132) | 257,012 | 102 | 248,427 |
| Fund Balance - Beginning | 6,311 | 9,132 | 734,456 | 25,268 | 775,167 |
| Fund Balance - Ending | \$ 6,756 | \$ - | \$ 991,468 | \$ 25,370 | \$ 1,023,594 |

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2015

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2015 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2015.

| | CFDA | |
|---|--------|---------------------|
| | Number | Amount |
| Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance | | \$ 11,077,048 |
| Medi-Cal Billing Option | 93.778 | <u>(238,623)</u> |
| Total Expenditures reported in the Schedule of Expenditures of Federal Awards | | <u>\$10,838,425</u> |

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

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 46208*. During the year ended June 30, 2015, the District participated in the Longer Day incentive funding program. As of June 30, 2015, the District had not yet met its target funding. Through 2014-15, the instructional day and minute requirements have been reduced pursuant to *Education Code Section 46201.2*.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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.

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of La Mesa-Spring Valley School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the La Mesa-Spring Valley School District's basic financial statements, and have issued our report thereon dated December 10, 2015.

Internal Control over Financial Reporting

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

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

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State Board of Accountancy*

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Mesa-Spring Valley 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*.

Purpose of this Report

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

Christy White Associates

San Diego, California
December 10, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

Christy White, CPA

Independent Auditors' Report

Michael Ash, CPA

Heather Rubio

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

Report on Compliance for Each Major Federal Program

We have audited La Mesa-Spring Valley 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 La Mesa-Spring Valley School District's major federal programs for the year ended June 30, 2015. La Mesa-Spring Valley School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of La Mesa-Spring Valley 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 La Mesa-Spring Valley 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 La Mesa-Spring Valley School District's compliance.

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of La Mesa-Spring Valley 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 La Mesa-Spring Valley 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 La Mesa-Spring Valley School District's internal control over compliance.

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

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

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

Christy White Associates

San Diego, California
December 10, 2015

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of La Mesa-Spring Valley School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about La Mesa-Spring Valley 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 with the requirements referred to above. However, our audit does not provide a legal determination of La Mesa-Spring Valley School District's compliance with those requirements.

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Opinion on State Compliance

In our opinion, La Mesa-Spring Valley School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2015.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine La Mesa-Spring Valley School District's compliance with the state laws and regulations applicable to the following items:

| PROGRAM NAME | PROCEDURES PERFORMED |
|---|-----------------------------|
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Not Applicable |
| Instructional Time for school districts | Yes |
| Instructional Materials, general requirements | Yes |
| Ratios of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | Not Applicable |
| Gann Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | Not Applicable |
| Middle or Early College High Schools | Not Applicable |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Regional Occupation Centers or Programs Maintenance of Effort | Not Applicable |
| Adult Education Maintenance of Effort | Not Applicable |
| California Clean Energy Jobs Act | No |

(Continued on the next page)

Procedures Performed (continued)

| PROGRAM NAME | PROCEDURES PERFORMED |
|---|-----------------------------|
| After School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Common Core Implementation Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Attendance; for charter schools | Not Applicable |
| Mode of Instruction; for charter schools | Not Applicable |
| Nonclassroom-Based Instruction/Independent Study; for charter schools | Not Applicable |
| Determination of Funding for Nonclassroom-Based Instruction; for charter schools | Not Applicable |
| Annual Instructional Minutes – Classroom Based; for charter schools | Not Applicable |
| Charter School Facility Grant Program | Not Applicable |

We did not perform testing for California Clean Energy Jobs Act, because the District incurred no expenditures during the year ended June 30, 2015.

Christy White Associates

San Diego, California
December 10, 2015

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

| | |
|--|----------------------|
| Type of auditors' report issued: | <u>Unmodified</u> |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | <u>No</u> |
| Significant deficiency(ies) identified? | <u>None Reported</u> |
| Non-compliance material to financial statements noted? | <u>No</u> |

FEDERAL AWARDS

| | |
|---|----------------------|
| Internal control over major program: | |
| Material weakness(es) identified? | <u>No</u> |
| Significant deficiency(ies) identified? | <u>None Reported</u> |
| Type of auditors' report issued: | <u>Unmodified</u> |
| Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | <u>No</u> |
| Identification of major programs: | |

| <u>CFDA Number(s)</u> | <u>Name of Federal Program of Cluster</u> |
|-------------------------------|---|
| <u>84.010</u> | <u>Title I, Part A, Basic Grants</u> |
| <u>10.553, 10.555, 10.559</u> | <u>Child Nutrition Cluster</u> |

| | |
|--|------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 325,153 |
| Auditee qualified as low-risk auditee? | <u>Yes</u> |

STATE AWARDS

| | |
|---|----------------------|
| Internal control over state programs: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiency(ies) identified? | <u>None Reported</u> |
| Type of auditors' report issued on compliance for state programs: | <u>Unmodified</u> |

LA MESA-SPRING VALLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2015.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings and questioned costs for the year ended June 30, 2015.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings and questioned costs for the year ended June 30, 2015.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING #2014-1: STUDENT BODY FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines the proper internal control procedures for associated student body accounts to follow.

Condition:

Fletcher Hills ES – Although the elementary school ASB fund does not experience a high volume of activity, cash receipts and related proceeds should be deposited in a timely manner in order to mitigate risks related to cash handling. Through inquiry and review of financial records, it was determined that lag time between receipt and deposit of ASB proceeds can be as much as six weeks. For purposes of best practice and safeguarding of fiduciary fund assets, we recommend that proceeds be deposited within two weeks of receipt.

Parkway MS – Auditor noted in two out of ten cash receipts selections that deposit documentation was not adequately substantiated by supporting documentation. ASB deposit documentation should be supported by items such as control or tally sheets, in order to reconcile proceeds from the event/fundraiser to the amount subsequently deposited.

Perspective: We reviewed and tested internal controls over Associated Body Funds at several schools throughout the District.

Cause: Insufficient controls over student body activities.

Effect: Potential for irregularities to go undetected.

Recommendation: We recommend that the District provide the FCMAT manual to all ASB staff as well as provide District-wide ASB training to reinforce the importance for sound internal control procedures to be implemented. We also recommend that the District follow up with sites to verify that internal control procedures are in place.

District Response: The FCMAT ASB Manual has been provided to all Principals, ASB staff, and School Office Managers. Staff has been advised to review the manual and utilize it as an ongoing reference guide for ASB operations. The Internal Auditor will provide training to all ASB staff and will conduct audits at all school sites to ensure internal control of ASB funds.

Current Status: Implemented.