



**SADDLEBACK VALLEY
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2015

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	17
Fund Financial Statements	
Governmental Funds - Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Proprietary Funds - Statement of Net Position	23
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	24
Proprietary Funds - Statement of Cash Flows	25
Fiduciary Funds - Statement of Net Position	26
Fiduciary Funds - Statement of Changes in Net Position	27
Notes to Financial Statements	28

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	76
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	77
Schedule of the District's Proportionate Share of the Net Pension Liability	78
Schedule of District Contributions	79

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	81
Local Education Agency Organization Structure	83
Schedule of Average Daily Attendance	84
Schedule of Instructional Time	85
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	86
Schedule of Financial Trends and Analysis	87
Schedule of Charter Schools	88
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	90
Note to Supplementary Information	91

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	94
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	96
Report on State Compliance	98

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	102
Financial Statement Findings	103
Federal Awards Findings and Questioned Costs	104
State Awards Findings and Questioned Costs	105
Summary Schedule of Prior Audit Findings	106
Management Letter	107

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, in 2015, the District adopted new accounting guidance, GASB 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 on pages 5 through 14 and budgetary comparison, other postemployment benefit information (OPEB) funding progress, the District's proportionate share of the net pension liability, and District contributions on pages 76 through 79, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015, on our consideration of the Saddleback Valley Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saddleback Valley Unified School District's internal control over financial reporting and compliance.

VAORZNEK, TIZAS, DAY + CO, LLP

Rancho Cucamonga, California
December 4, 2015



SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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Board of Education

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

Clint Harwick, Ed.D.
Superintendent

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

The Primary unit of the government is the Saddleback Valley Unified School District.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$113,105,194 for the fiscal year ended June 30, 2015, reflecting a decrease of 3.6 percent since June 30, 2014. Of this amount, \$(169,517,905) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2015	2014 as restated	2015	2014	2015	2014 as restated
Assets						
Current and other assets	\$ 168,106,548	\$ 179,480,436	\$ 1,147,260	\$ 1,224,167	\$ 169,253,808	\$ 180,704,603
Capital assets	365,835,413	374,620,055	85,999	113,722	365,921,412	374,733,777
Total Assets	533,941,961	554,100,491	1,233,259	1,337,889	535,175,220	555,438,380
Deferred Outflows of Resources	19,244,699	18,122,585	-	-	19,244,699	18,122,585
Liabilities						
Current liabilities, including current portion of long-term obligations	32,770,004	33,573,259	866,814	962,600	33,636,818	34,535,859
Long-term obligations	179,677,931	195,365,197	-	-	179,677,931	195,365,197
Aggregate net pension liability	179,043,642	226,366,531	-	-	179,043,642	226,366,531
Total Liabilities	391,491,577	455,304,987	866,814	962,600	392,358,391	456,267,587
Deferred Inflows of Resources	48,956,334		-	-	48,956,334	-
Net Position						
Net investment in capital assets	217,437,137	218,256,355	85,999	113,722	217,523,136	218,370,077
Restricted	65,099,963	66,980,977	-	-	65,099,963	66,980,977
Unrestricted	(169,798,351)	(168,319,243)	280,446	261,567	(169,517,905)	(168,057,676)
Total Net Position	\$ 112,738,749	\$ 116,918,089	\$ 366,445	\$ 375,289	\$ 113,105,194	\$ 117,293,378

The \$(169,517,905) in unrestricted net position of the District represents the accumulated results of all past years' operations.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 17. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 3,228,336	\$ 2,803,616	\$ 2,506,409	\$ 2,545,023	\$ 5,734,745	\$ 5,348,639
Operating grants and contributions	42,770,362	45,425,911	1,198,589	1,109,006	43,968,951	46,534,917
Capital grants and contributions	-	7,649	-	-	-	7,649
General revenues:						
Federal and State aid not restricted	65,689,404	57,023,444	-	-	65,689,404	57,023,444
Property taxes	159,256,814	152,269,657	-	-	159,256,814	152,269,657
Other general revenues	21,770,558	25,251,976	1,926	1,353	21,772,484	25,253,329
Total Revenues	292,715,474	282,782,253	3,706,924	3,655,382	296,422,398	286,437,635
Expenses						
Instruction	178,153,614	160,498,545	-	-	178,153,614	160,498,545
Instruction-related	23,922,208	22,802,904	-	-	23,922,208	22,802,904
Pupil services	22,953,997	20,584,528	-	-	22,953,997	20,584,528
Administration	10,233,998	10,358,889	-	-	10,233,998	10,358,889
Plant services	21,565,210	20,101,278	-	-	21,565,210	20,101,278
Interest on long-term obligations	5,035,073	10,373,823	-	-	5,035,073	10,373,823
Other	35,030,714	35,498,816	-	-	35,030,714	35,498,816
Enterprise activities	-	-	3,715,768	3,607,369	3,715,768	3,607,369
Total Expenses	296,894,814	280,218,783	3,715,768	3,607,369	300,610,582	283,826,152
Change in Net Position	\$ (4,179,340)	\$ 2,563,470	\$ (8,844)	\$ 48,013	\$ (4,188,184)	\$ 2,611,483

Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was \$296,894,814. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$159,256,814 because the cost was paid by those who benefited from the programs (\$3,228,336) or by other governments and organizations who subsidized certain programs with grants and contributions (\$42,770,362). We paid for the remaining "public benefit" portion of our governmental activities with \$87,459,962 in Federal and State funds, and with other revenues, like interest and general entitlements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction	\$ 178,153,614	\$ 160,498,545	\$ 152,790,306	\$ 133,847,401
Instruction-related	23,922,208	22,802,904	21,812,882	16,940,344
Pupil services	22,953,997	20,584,528	15,528,079	13,605,996
Administration	10,233,998	10,358,889	8,677,356	8,340,041
Plant services	21,565,210	20,101,278	20,048,589	19,768,467
Interest on long-term obligations	5,035,073	10,373,823	5,035,073	10,373,823
Other	35,030,714	35,498,816	27,003,831	29,105,535
Total	\$ 296,894,814	\$ 280,218,783	\$ 250,896,116	\$ 231,981,607

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$122,365,157, which is a decrease of \$10,713,661 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2014	Revenues	Expenditures	June 30, 2015
General Fund	\$ 67,046,788	\$ 253,988,852	\$ 261,938,798	\$ 59,096,842
Capital Facilities Fund	10,736,437	4,777,797	108,055	15,406,179
Debt Service Fund for Blended Component Units	27,407,547	609,425	5,175,653	22,841,319
Special Education Pass-Through Fund	-	2,180,590	2,180,590	-
Adult Education Fund	54,240	1,243,627	1,252,651	45,216
Child Development Fund	2,873,653	8,652,026	9,053,171	2,472,508
Cafeteria Fund	458,496	6,242,077	6,292,975	407,598
Building Fund	6,245,930	27,342	710,491	5,562,781
County School Facilities Fund	245,811	2,039	4,178	243,672
Special Reserve Fund for Capital Outlay Projects	8,861,912	3,323,067	4,252,628	7,932,351
Capital Projects Fund for Blended Component Units	480,611	294,767	398,899	376,479
Bond Interest and Redemption	8,667,393	9,687,881	10,375,062	7,980,212
Total	\$ 133,078,818	\$ 291,029,490	\$ 301,743,151	\$ 122,365,157

The primary reasons for these increases/decreases are:

- a. The General Fund showed a decrease of \$7.9 million attributable to paying off a supplementary teacher's retirement plan.
- b. The Capital Facilities Fund showed an increase of \$4.7 million from increased fees relating to residential home growth within the District boundaries.
- c. The Debt Service Fund for Blended Component Units showed a decrease of \$4.6 million.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 10, 2015. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 76.)

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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

- Re-allocation of carryovers including school site gifts, resource allocation, and categorical programs.
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.
- Negotiated salary agreements.
- Fully funding and annuitizing outstanding debt on an early retirement plan for teachers.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$365,921,412 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$8,812,365, or 2.4 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land and construction in progress	\$ 58,686,284	\$ 58,123,006	\$ -	\$ -	\$ 58,686,284	\$ 58,123,006
Buildings and improvements	300,403,374	309,640,837	71,569	97,144	300,474,943	309,737,981
Furniture and equipment	6,745,755	6,856,212	14,430	16,578	6,760,185	6,872,790
Total	\$ 365,835,413	\$ 374,620,055	\$ 85,999	\$ 113,722	\$ 365,921,412	\$ 374,733,777

The \$8.8 million decrease in net capital assets is largely due to depreciation in land and building improvements which exceeded capital construction projects completed during the year (see Note 4).

Additional capital projects are planned for the 2015-2016 year. We anticipate capital additions to be approximately \$8 million for the 2015-2016 year.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Long-Term Obligations

At the end of this year, the District had \$190,932,462 in long-term obligations versus \$205,966,550 last year, a decrease of 15,034,088 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2015	2014
General obligation bonds - net (financed with property taxes)	\$ 136,116,593	\$ 141,848,851
Public financing authority bonds	22,839,279	26,638,843
Compensated absences	2,000,366	2,224,000
Supplemental employment retirement plan	-	8,181,546
Other postemployment benefits	18,658,163	16,256,124
Claims liability	11,318,061	10,817,186
Total	\$ 190,932,462	\$ 205,966,550

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

Net Pension Liability (NPL)

At year end, the District had a net pension liability of \$179,677,931 as a result of the implementation of GASB Statement No. 68 during the current fiscal year.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2014-2015 ARE NOTED BELOW:

- Increased focus on mathematics.
- Developed/revised the Local Control and Accountability Plan (LCAP).
- Expanded implementation of the Common Core State Standards (CCSS) emphasizing literacy.
- Increased focus on mathematics and trained teachers on new mathematics instructional materials.
- Provided technical support and training for Chromebooks for all fourth, seventh, and tenth grade students.
- Promoted and supported teacher leadership.
- Increased effective use of technology expanding on-line courses and securing technology grants. Awarded competitive grants including arts education and agriculture career technical education.
- Completed successful Western Association of Schools and Colleges (WASC) six year review for Trabuco Hills High School.
- Developed new curriculum and expanded Transitional Kindergarten program to ten classes.
- Expanded AVID program (Advancement Via Individual Determination).
- Expanded the High School Partnership Program with Saddleback College offering courses on each high school campus.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2015-2016 year, the governing board and management used the following criteria:

The key revenue forecast assumptions are as follows:

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

The District's major source of income will be the Local Control Funding Formula. The LCFF is largely based on average daily attendance (ADA). Since the 2003-2004 fiscal year, the District has declined in enrollment by over 6,000 students. Comparing CBEDS, or October census day enrollments, in 2013-2014, the District experienced a decline of 623 students. This was followed in 2014-2015 by an additional decline of 706 students. For 2015-2016, the District's October enrollment declined another 333 students.

- (2) Other revenues include one-time unrestricted mandated block grant money totaling \$14.8 million which will be used to support infrastructure and technology equipment/upgrades.

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 136,111,348	\$ 926,366	\$ 137,037,714
Receivables	31,158,861	287,815	31,446,676
Internal balances	68,121	(68,121)	-
Prepaid expenses	410,389	1,200	411,589
Stores inventories	357,829	-	357,829
Capital assets			
Land and construction in process	58,686,284	-	58,686,284
Other capital assets	513,668,876	565,479	514,234,355
Less: accumulated depreciation	(206,519,747)	(479,480)	(206,999,227)
Total Capital Assets	<u>365,835,413</u>	<u>85,999</u>	<u>365,921,412</u>
Total Assets	<u>533,941,961</u>	<u>1,233,259</u>	<u>535,175,220</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	4,626,388	-	4,626,388
Current year pension contribution	14,618,311	-	14,618,311
Total Deferred Outflows of Resources	<u>19,244,699</u>	<u>-</u>	<u>19,244,699</u>
LIABILITIES			
Accounts payable	17,445,487	278,214	17,723,701
Accrued interest payable	2,615,916	-	2,615,916
Unearned revenue	819,781	588,600	1,408,381
Long-term obligations			
Current portion of long-term obligations other than pensions	11,888,820	-	11,888,820
Noncurrent portion of long-term obligations other than pensions	179,043,642	-	179,043,642
Total Long-Term Liabilities	<u>190,932,462</u>	<u>-</u>	<u>190,932,462</u>
Aggregate net pension liability	179,677,931	-	179,677,931
Total Liabilities	<u>391,491,577</u>	<u>866,814</u>	<u>392,358,391</u>
DEFERRED INFLOWS OF RESOURCES			
Net change in proportionate share of net pension liability	1,474,459	-	1,474,459
Difference between projected and actual earnings on pension plan investments	47,481,875	-	47,481,875
Total Deferred Inflows of Resources	<u>48,956,334</u>	<u>-</u>	<u>48,956,334</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION, CONTINUED JUNE 30, 2015

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
NET POSITION			
Net investment in capital assets	\$ 217,437,137	\$ 85,999	\$ 217,523,136
Restricted for:			
Debt service	28,205,615	-	28,205,615
Capital projects	15,649,851	-	15,649,851
Educational programs	4,746,932	-	4,746,932
Other activities	16,497,565	-	16,497,565
Unrestricted	(169,798,351)	280,446	(169,517,905)
Total Net Position	<u>\$ 112,738,749</u>	<u>\$ 366,445</u>	<u>\$ 113,105,194</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 178,153,614	\$ 324,958	\$ 25,038,350
Instruction-related activities:			
Supervision of instruction	5,524,912	8,867	1,502,521
Instructional library, media, and technology	2,863,674	20,678	213,734
School site administration	15,533,622	3,754	359,772
Pupil services:			
Home-to-school transportation	4,841,242	16	181,915
Food services	6,104,464	2,099,459	3,460,833
All other pupil services	12,008,291	21,701	1,661,994
Administration:			
Data processing	2,669,287	-	-
All other administration	7,564,711	87,468	1,469,174
Plant services	21,565,210	9,139	1,507,482
Facility acquisition and construction	399,251	-	-
Ancillary services	1,336,497	22	1,125
Community services	8,428,348	37,446	324,569
Enterprise services	70,736	-	-
Interest on long-term obligations	5,035,073	-	-
Other outgo	8,229,619	614,828	7,048,893
Depreciation (unallocated) ¹	16,566,263	-	-
Total Governmental Activities	296,894,814	3,228,336	42,770,362
Business-Type Activities			
Enterprise services	3,715,768	2,506,409	1,198,589
Total School District	\$ 300,610,582	\$ 5,734,745	\$ 43,968,951
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Miscellaneous			
Subtotal, General Revenues			
Change in Net Position			
Net Position - Beginning, as Restated			
Net Position - Ending			

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

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$ (152,790,306)	\$ -	\$ (152,790,306)
(4,013,524)	-	(4,013,524)
(2,629,262)	-	(2,629,262)
(15,170,096)	-	(15,170,096)
(4,659,311)	-	(4,659,311)
(544,172)	-	(544,172)
(10,324,596)	-	(10,324,596)
(2,669,287)	-	(2,669,287)
(6,008,069)	-	(6,008,069)
(20,048,589)	-	(20,048,589)
(399,251)	-	(399,251)
(1,335,350)	-	(1,335,350)
(8,066,333)	-	(8,066,333)
(70,736)	-	(70,736)
(5,035,073)	-	(5,035,073)
(565,898)	-	(565,898)
(16,566,263)	-	(16,566,263)
(250,896,116)	-	(250,896,116)
-	(10,770)	(10,770)
(250,896,116)	(10,770)	(250,906,886)
147,472,935	-	147,472,935
9,670,301	-	9,670,301
2,113,578	-	2,113,578
65,689,404	-	65,689,404
357,668	-	357,668
21,412,890	1,926	21,414,816
246,716,776	1,926	246,718,702
(4,179,340)	(8,844)	(4,188,184)
116,918,089	375,289	117,293,378
\$ 112,738,749	\$ 366,445	\$ 113,105,194

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 60,468,463	\$ 15,251,100	\$ 4,390,999	\$ 28,304,130	\$ 108,414,692
Receivables	10,483,252	163,645	18,450,320	1,319,344	30,416,561
Due from other funds	930,581	-	-	333,563	1,264,144
Prepaid expenditures	214,278	-	-	196,111	410,389
Stores inventories	319,729	-	-	38,100	357,829
Total Assets	\$ 72,416,303	\$ 15,414,745	\$ 22,841,319	\$ 30,191,248	\$ 140,863,615
FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,855,422	\$ 8,566	\$ -	\$ 3,584,921	\$ 16,448,909
Due to other funds	397,011	-	-	883,464	1,280,475
Unearned revenue	67,028	-	-	702,046	769,074
Total Liabilities	13,319,461	8,566	-	5,170,431	18,498,458
Fund Balances:					
Nonspendable	654,007	-	-	234,211	888,218
Restricted	4,746,932	15,406,179	22,841,319	14,118,116	57,112,546
Committed	-	-	-	416,199	416,199
Assigned	1,886,342	-	-	10,252,291	12,138,633
Unassigned	51,809,561	-	-	-	51,809,561
Total Fund Balances	59,096,842	15,406,179	22,841,319	25,020,817	122,365,157
Total Liabilities and Fund Balances	\$ 72,416,303	\$ 15,414,745	\$ 22,841,319	\$ 30,191,248	\$ 140,863,615

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds	\$ 122,365,157
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 572,355,160
Accumulated depreciation is	<u>(206,519,747)</u>
Net Capital Assets	365,835,413
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	14,618,311
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(2,615,916)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	16,158,062
Deferred charges on refunding (difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) are included with governmental activities.	4,626,388
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.	(1,474,459)
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(47,481,875)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(179,677,931)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
General obligation bonds	122,240,000
Premium on issuance of bonds	13,876,593
Public financing authority bonds	22,839,279
Compensated absences (vacations)	2,000,366
Net OPEB obligation	18,658,163
Total Long-Term Obligations	<u>(179,614,401)</u>
Total Net Position - Governmental Activities	<u>\$ 112,738,749</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 204,988,263	\$ -	\$ -	\$ 1,000,000	\$ 205,988,263
Federal sources	9,708,033	-	-	4,331,079	14,039,112
Other State sources	35,034,031	-	-	2,034,604	37,068,635
Other local sources	4,258,525	4,777,797	609,425	24,287,733	33,933,480
Total Revenues	253,988,852	4,777,797	609,425	31,653,416	291,029,490
EXPENDITURES					
Current					
Instruction	182,482,313	-	-	764,403	183,246,716
Instruction-related activities:					
Supervision of instruction	5,313,525	-	-	82,830	5,396,355
Instructional library, media, and technology	2,818,584	-	-	-	2,818,584
School site administration	15,066,321	-	-	251,454	15,317,775
Pupil services:					
Home-to-school transportation	4,837,324	-	-	-	4,837,324
Food services	2,641	-	-	6,064,788	6,067,429
All other pupil services	11,645,444	-	-	76,579	11,722,023
Administration:					
Data processing	2,693,697	-	-	-	2,693,697
All other administration	7,217,197	-	-	235,129	7,452,326
Plant services	21,292,180	-	-	132,924	21,425,104
Facility acquisition and construction	1,186,312	108,055	-	6,156,131	7,450,498
Ancillary services	1,323,709	-	-	-	1,323,709
Community services	3,299	-	-	8,200,577	8,203,876
Other outgo	6,049,029	-	-	2,180,590	8,229,619
Enterprise services	7,223	-	-	-	7,223
Debt service					
Principal	-	-	4,315,000	4,600,000	8,915,000
Interest and other	-	-	860,653	5,775,240	6,635,893
Total Expenditures	261,938,798	108,055	5,175,653	34,520,645	301,743,151
NET CHANGE IN FUND BALANCES	(7,949,946)	4,669,742	(4,566,228)	(2,867,229)	(10,713,661)
Fund Balances - Beginning	67,046,788	10,736,437	27,407,547	27,888,046	133,078,818
Fund Balances - Ending	\$ 59,096,842	\$ 15,406,179	\$ 22,841,319	\$ 25,020,817	\$ 122,365,157

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ (10,713,661)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (16,566,263)	
Capital outlays	<u>7,786,332</u>	
Net Expense Adjustment		(8,779,931)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position but is not recorded in the governmental funds. (4,711)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits paid exceeded amounts earned by \$8,181,546. Vacation earned was less than the amounts paid by \$223,634. 8,405,180

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (374,555)

Other postemployment benefits (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (2,402,039)

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

Amortization of debt premium	1,132,258	
Amortization of deferred charges on refunding	<u>(771,065)</u>	361,193

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

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

General obligation bonds	\$ 4,600,000
Public financing authority bonds	4,315,000

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds increased by \$1,755,063 and second, \$515,436 of additional interest was accreted on the District's public financing authority bonds.

1,239,627

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

(825,443)

Change in Net Position of Governmental Activities

\$ (4,179,340)

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund Community Recreation Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 926,366	\$ 27,696,656
Receivables	287,815	742,300
Due from other funds	-	84,452
Prepaid expenses	1,200	-
Total Current Assets	1,215,381	28,523,408
Noncurrent Assets		
Furniture and equipment (net)	85,999	-
Total Assets	1,301,380	28,523,408
LIABILITIES		
Current Liabilities		
Accounts payable	278,214	996,578
Due to other funds	68,121	-
Unearned revenue	588,600	50,707
Current portion of long-term obligations	-	2,328,820
Total Current Liabilities	934,935	3,376,105
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	8,989,241
NET POSITION		
Net investment in capital assets	85,999	-
Restricted	-	16,158,062
Unrestricted	280,446	-
Total Net Position	\$ 366,445	\$ 16,158,062

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund Community Recreation Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 3,704,998	\$ 41,523,318
OPERATING EXPENSES		
Payroll costs	2,571,967	287,710
Supplies and materials	290,883	44,861
Facility rental	36,003	3,925
Other operating cost	816,915	42,113,456
Total Operating Expenses	<u>3,715,768</u>	<u>42,449,952</u>
Operating Loss	<u>(10,770)</u>	<u>(926,634)</u>
NONOPERATING REVENUES		
Interest income	1,926	101,191
Change in Net Position	<u>(8,844)</u>	<u>(825,443)</u>
Total Net Position - Beginning	<u>375,289</u>	<u>16,983,505</u>
Total Net Position - Ending	<u>\$ 366,445</u>	<u>\$ 16,158,062</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund Community Recreation Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,852,273	\$ 41,542,096
Other operating cash receipts	1,140,120	276,157
Cash payments to other suppliers of goods or services	(363,927)	(425,411)
Cash payments to employees for services	(2,576,866)	(287,995)
Other operating cash payments	(790,392)	(41,612,581)
Net Cash Provided (Used) by Operating Activities	<u>261,208</u>	<u>(507,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,926	101,191
Net increase (decrease) in cash and cash equivalents	263,134	(406,543)
Cash and cash equivalents - Beginning	663,232	28,103,199
Cash and cash equivalents - Ending	<u>\$ 926,366</u>	<u>\$ 27,696,656</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (10,770)	\$ (926,634)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	27,723	-
Changes in assets and liabilities:		
Receivables	345,864	133,345
Due from other funds	276	162,989
Prepaid expenditures	(1,200)	-
Accounts payable	(37,041)	(376,625)
Due to other fund	(4,899)	(285)
Unearned revenue	(58,745)	(1,399)
Claims liability	-	500,875
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 261,208</u>	<u>\$ (507,734)</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2015

	Agency Funds
ASSETS	
Deposits and investments	\$ 10,764,910
Receivables	13,946
Prepaid expenses	198,717
Stores inventories	37,118
Total Assets	<u><u>\$ 11,014,691</u></u>
LIABILITIES	
Accounts payable	\$ 152,629
Unearned revenue	147,457
Due to student groups	2,952,445
Due to bondholders	7,762,160
Total Liabilities	<u><u>\$ 11,014,691</u></u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2015**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ (179)</u>
Change in Net Position	(179)
Net Position - Beginning	<u>179</u>
Net Position - Ending	<u><u>\$ -</u></u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Saddleback Valley Unified School District (the District) was organized in 1973 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one independent high school, one continuation high school, and one adult education school.

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

Component Units

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Other Related Entities

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

Basis of Presentation Fund Accounting

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

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

Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues, and expenditures of \$87,471, \$93, \$1,089,308, and \$1,102,625, respectively.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

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

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

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates health and welfare, property and liability, and workers' compensation programs accounted for in an internal service fund.

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust fund is the Peter A. Hartman Memorial Scholarship Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

Basis of Accounting - Measurement Focus

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

Cash and Cash Equivalents

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

Investments

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

Prepaid Expenditures

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

Stores Inventories

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions and for the unamortized amount on net change in proportionate share of net pension liability.

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

Pensions

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

Bond Premiums

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$65,099,963 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for recreational service fees and to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Property Tax

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

Change in Accounting Principles

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$211,519,774. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

New Accounting Pronouncements

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

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

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

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 136,111,348
Business-type activities	926,366
Fiduciary funds	10,764,910
Total Deposits and Investments	<u>\$ 147,802,624</u>

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

Cash on hand and in banks	\$ 4,069,354
Cash in revolving	2,350,000
Investments	141,383,270
Total Deposits and Investments	<u>\$ 147,802,624</u>

Policies and Practices

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

General Authorizations

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

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

Interest Rate Risk

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Investment Type	Amount Reported	Fair Value	Average Maturity in Days/ Maturity Date
Orange County Investment Pool	\$ 129,230,110	\$ 129,309,657	370 days
Federated Treasury Obligations Fund	6,779,824	6,779,824	38 days
AIG Matched Funding Corporation Investment Agreement	1,302,378	1,302,378	09/01/20
Bayerische Investment Agreement	1,122,465	1,122,465	09/01/17
Societe Generale Investment Agreement	2,948,493	2,948,493	09/01/20
Total	<u>\$ 141,383,270</u>	<u>\$ 141,462,817</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2015. The investment in Federated Treasury Obligations has been rated Aaa-mf by Moody's Investor Service as of June 30, 2015. The investment in AIG Matched Funding Corporation Investment Agreement has been rated Baa1 by Moody's Investor Service as of June 30, 2015. The investment in Bayerische Investment Agreement has been rated Aaa by Moody's Investor Service as of June 30, 2015. The investment in Societe Generale Investment Agreement has been rated A-2 by Moody's Investor Service as of June 30, 2015.

Concentration of Credit Risk

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the District's bank balance of \$3,989,001 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in AIG Matching Funding Corporation Investment Agreement of \$1,302,378, Bayerische Investment Agreement of \$1,122,465, and Societe Generale Investment Agreement of \$2,948,493, the District has a custodial credit risk exposure of \$5,373,336 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 3 - RECEIVABLES

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

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
Federal Government								
Categorical aid	\$ 4,076,095	\$ -	\$ -	\$ 841,401	\$ -	\$ 4,917,496	\$ -	\$ -
State Government								
LCFF principal apportionment	997,704	-	-	-	-	997,704	-	-
Categorical aid	143,457	-	-	23,365	-	166,822	-	-
Lottery	2,758,418	-	-	-	-	2,758,418	-	-
Special education	799,145	-	-	217,067	-	1,016,212	-	-
Local Government								
Interest	26,609	5,607	-	7,046	8,927	48,189	132	-
Regional occupational program (ROP)	473,499	-	-	-	-	473,499	-	-
Other Local Sources	1,208,325	158,038	18,450,320	230,465	733,373	20,780,521	287,683	13,946
Total	<u>\$ 10,483,252</u>	<u>\$ 163,645</u>	<u>\$ 18,450,320</u>	<u>\$ 1,319,344</u>	<u>\$ 742,300</u>	<u>\$ 31,158,861</u>	<u>\$ 287,815</u>	<u>\$ 13,946</u>

The \$18,450,320 included above in the Debt Service Fund for Blended Component Units will be paid to the public financing authority bonds (PFA) from special taxes on parcels of taxable property within the CFD used to pay the principal and interest on the bonds. The payments will continue through the life of the refinanced bonds.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 39,487,653	\$ -	\$ -	\$ 39,487,653
Construction in progress	18,635,353	1,916,361	1,353,083	19,198,631
Total Capital Assets Not Being Depreciated	58,123,006	1,916,361	1,353,083	58,686,284
Capital Assets Being Depreciated:				
Land improvements	55,008,443	2,854,123	-	57,862,566
Buildings and improvements	426,327,517	3,305,379	-	429,632,896
Furniture and equipment	25,630,104	1,063,552	520,242	26,173,414
Total Capital Assets Being Depreciated	506,966,064	7,223,054	520,242	513,668,876
Total Capital Assets	565,089,070	9,139,415	1,873,325	572,355,160
Less Accumulated Depreciation:				
Land improvements	20,471,252	2,397,548	-	22,868,800
Buildings and improvements	151,223,871	12,999,417	-	164,223,288
Furniture and equipment	18,773,892	1,169,298	515,531	19,427,659
Total Accumulated Depreciation	190,469,015	16,566,263	515,531	206,519,747
Governmental Activities Capital Assets, Net	\$ 374,620,055	\$ (7,426,848)	\$ 1,357,794	\$ 365,835,413
Business-Type Activities				
Capital Assets Being Depreciated:				
Buildings and improvements	\$ 500,000	\$ -	\$ -	\$ 500,000
Furniture and equipment	65,479	-	-	65,479
Total Capital Assets Being Depreciated	565,479	-	-	565,479
Less Accumulated Depreciation:				
Buildings and improvements	402,856	25,575	-	428,431
Furniture and equipment	48,901	2,148	-	51,049
Total Accumulated Depreciation	451,757	27,723	-	479,480
Business-Type Activities Capital Assets, Net	\$ 113,722	\$ (27,723)	\$ -	\$ 85,999

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Governmental Activities

Unallocated

\$ 16,566,263

Business-Type Activities

Enterprise

\$ 27,723

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Community Recreation Enterprise Fund	
General Fund	\$ -	\$ 867,661	\$ 62,920	\$ 930,581
Non-Major Governmental Funds	331,344	2,219	-	333,563
Internal Service Fund	65,667	13,584	5,201	84,452
Total	<u>\$ 397,011</u>	<u>\$ 883,464</u>	<u>\$ 68,121</u>	<u>\$ 1,348,596</u>

A balance of \$31,174 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$557,691 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$278,796 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

The balance of \$62,920 due to the General Fund from the Community Recreation Enterprise Fund resulted from indirect costs paid.

A balance of \$223,598 due to the Building Non-Major Governmental Fund from the General Fund resulted from reimbursement of project costs.

The balance of \$65,667 due to the Internal Service Fund from the General Fund resulted from insurance premiums for health and welfare.

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
Vendor payables	\$ 1,529,990	\$ -	\$ 669,458	\$ 123,236	\$ 2,322,684	\$ 62,054	\$ -
Salaries and benefits	9,093,566	-	1,363,007	872,026	11,328,599	216,160	-
Books and supplies	-	-	-	-	-	-	-
Construction	533,517	7,740	829,094	-	1,370,351	-	-
Services and other operating payables	1,698,349	826	723,362	1,316	2,423,853	-	152,629
Total	\$ 12,855,422	\$ 8,566	\$ 3,584,921	\$ 996,578	\$ 17,445,487	\$ 278,214	\$ 152,629

NOTE 7 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Community Recreation Enterprise Fund	Fiduciary Funds
State categorical aid	\$ 23,526	\$ -	\$ -	\$ 23,526	\$ -	\$ -
Other local	43,502	702,046	50,707	796,255	588,600	147,457
Total	\$ 67,028	\$ 702,046	\$ 50,707	\$ 819,781	\$ 588,600	\$ 147,457

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 126,840,000	\$ -	\$ 4,600,000	\$ 122,240,000	\$ 4,970,000
Premium on issuance	15,008,851	-	1,132,258	13,876,593	-
Public Financing Authority Bonds	26,638,843	515,436	4,315,000	22,839,279	4,590,000
Compensated absences	2,224,000	-	223,634	2,000,366	-
Supplemental employment retirement plan (SERP)	8,181,546	-	8,181,546	-	-
Other postemployment benefits (OPEB)	16,256,124	7,086,738	4,684,699	18,658,163	-
Claims liability	10,817,186	25,628,861	25,127,986	11,318,061	2,328,820
	<u>\$ 205,966,550</u>	<u>\$ 33,231,035</u>	<u>\$ 48,265,123</u>	<u>\$ 190,932,462</u>	<u>\$ 11,888,820</u>

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2014	Redeemed	Bonds Outstanding June 30, 2015
08/12/04	08/01/29	2.0-6.0%	\$ 100,000,000	\$ 2,125,000	\$ 2,125,000	\$ -
01/24/07	08/01/30	3.5-5.0%	60,000,000	44,065,000	1,775,000	42,290,000
05/09/13	08/01/29	2.0-5.0%	71,865,000	70,650,000	300,000	70,350,000
09/26/13	08/01/29	2.0-5.0%	10,000,000	10,000,000	400,000	9,600,000
				<u>\$ 126,840,000</u>	<u>\$ 4,600,000</u>	<u>\$ 122,240,000</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2004 Election General Obligation Bonds, Series 2004A

On August 12, 2004, the District issued the \$100,000,000 2004 Election General Obligation Bonds, Series 2004A. The 2004 Series A bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 6.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. During 2012-2013, a portion of the bonds were refunded with the proceeds from the 2013 General Obligation Refunding Bonds. At June 30, 2015, the District had fulfilled its obligation for the 2004 General Obligation Bonds, Series 2004A.

2004 Election General Obligation Bonds, Series 2007A

On January 24, 2007, the District issued the \$60,000,000 2004 Election General Obligation Bonds, Series 2007A. The 2007 Series A were issued as current interest bonds, and have a final maturity to occur on August 1, 2030. Interest rates on the bonds range from of 3.50 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. At June 30, 2015, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2007A was \$42,290,000. Unamortized premium received on issuance of the bonds amounted to \$1,243,818 as of June 30, 2015.

2011 General Obligation Refunding Bonds

On May 9, 2013, the District issued the \$71,865,000 2011 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds were issued as current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. The net proceeds of \$84,632,985 (representing the principal amount of \$71,865,000 plus premium on issuance of \$13,296,488 minus cost of issuance of \$528,503) from the issuance were used to advance refund a portion of the District's 2004 Election General Obligation Bonds, Series 2004A, with the final prepayment to occur August 1, 2013, and to pay the costs of issuance associated with the refunding bonds. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$4,626,388 remain to be amortized using the straight-line method. The refunding resulted in a cumulative cash flow saving of \$13,670,278 over the life of the new debt and an economic gain of \$11,118,743 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.398 percent.

At June 30, 2015, the principal balance outstanding of the 2011 General Obligation Refunding Bonds was \$70,350,000. Unamortized premium received on issuance of the bonds amounted to \$11,634,426 as of June 30, 2015.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2004 Election General Obligation Bonds, Series 2013A

On September 26, 2013, the District issued the \$10,000,000 2004 Election General Obligation Bonds, Series 2013A. The 2013 Series A were issued current interest bonds, and have a final maturity to occur on August 1, 2029. Interest rates on the bonds range from of 2.00 to 5.00 percent. Proceeds from the sale of the bonds were to be used for the purpose of paying for new construction, reconstruction, or modernization of some or all of the schools within the District. At June 30, 2015, the principal balance outstanding of the 2004 General Obligation Bonds, Series 2013A was \$9,600,000. Unamortized premium received on issuance of the bonds amounted to \$998,349 as of June 30, 2015.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal	Current Interest	Total
2016	\$ 4,970,000	\$ 5,603,606	\$ 10,573,606
2017	5,305,000	5,430,631	10,735,631
2018	4,835,000	5,258,931	10,093,931
2019	5,240,000	5,061,206	10,301,206
2020	5,720,000	4,820,706	10,540,706
2021-2025	37,070,000	19,403,484	56,473,484
2026-2030	55,435,000	8,042,313	63,477,313
2031	3,665,000	82,463	3,747,463
Total	<u>\$ 122,240,000</u>	<u>\$ 53,703,340</u>	<u>\$ 175,943,340</u>

Public Financing Authority Bonds

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

The outstanding debt incurred through bonds issued in connection with the PFA at June 30, 2015, is as follows:

Issue Reference	Original Issue	PFAs Outstanding July 1, 2014	Accreted	Redeemed	PFAs Outstanding June 30, 2015
PFA 95	\$ 16,265,000	\$ 3,935,000	\$ -	\$ 1,325,000	\$ 2,610,000
PFA 96	29,484,918	15,718,843	515,436	2,195,000	14,039,279
PFA 98	13,705,000	6,985,000	-	795,000	6,190,000
		<u>\$ 26,638,843</u>	<u>\$ 515,436</u>	<u>\$ 4,315,000</u>	<u>\$ 22,839,279</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The annual requirements to amortize the bonds issued in connection with the PFA outstanding as of June 30, 2015, are as follows:

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Interest	Total
2016	\$ 4,590,000	\$ -	\$ 610,246	\$ 5,200,246
2017	4,395,000	-	357,185	4,752,185
2018	3,998,190	376,810	191,590	4,566,590
2019	3,302,014	522,986	127,418	3,952,418
2020	3,283,621	671,379	78,850	4,033,850
2021-2023	3,270,454	814,546	26,838	4,111,838
Total	<u>\$ 22,839,279</u>	<u>\$ 2,385,721</u>	<u>\$ 1,392,127</u>	<u>\$ 26,617,127</u>

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2015, amounted to \$2,000,366.

Supplemental Employment Retirement Plan

The District entered into an agreement for a supplemental retirement benefits plan for certain certificated employees of the District. Eligibility requirements were that employees must have no less than 20 years of service with the District, must be 55 years of age, terminated employment with the District, applied for benefits under this plan, and must have retired under CalSTRS as of or before June 30 of the year of plan offering. The agreement called for the District to make annual payments into an annuity contract for the life of the retirees and their named beneficiaries. The District was funding the contract on a "pay-as-you-go" and therefore, 25 years may not have been sufficient to completely fund all benefits. At June 30, 2015, the District had fulfilled its outstanding obligation by fully funding and annuitizing the plan.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$7,477,108, and contributions made by the District during the year were \$4,684,699. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$772,166 and \$(1,162,536), respectively, which resulted in an increase to the net OPEB obligation of \$2,402,039. As of June 30, 2015, the net OPEB obligation was \$18,658,163. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation, and health and welfare claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2015, amount to \$11,318,061, using a discount factor of 1.5 percent.

NOTE 9 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$18,450,320 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Debt Service Fund for Blended Component Unit	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Prepaid expenditures	214,278	-	-	196,111	410,389
Stores inventories	319,729	-	-	38,100	357,829
Total Nonspendable	654,007	-	-	234,211	888,218
Restricted					
Legally restricted programs	4,746,932	-	-	-	4,746,932
Cafeteria program	-	-	-	339,503	339,503
Capital projects	-	15,406,179	-	5,798,401	21,204,580
Debt services	-	-	22,841,319	7,980,212	30,821,531
Total Restricted	4,746,932	15,406,179	22,841,319	14,118,116	57,112,546
Committed					
Adult education program	-	-	-	39,720	39,720
Capital projects	-	-	-	376,479	376,479
Total Committed	-	-	-	416,199	416,199
Assigned					
Child development	-	-	-	2,319,940	2,319,940
Deferred maintenance	93	-	-	-	93
Capital projects	-	-	-	7,932,351	7,932,351
Other program balances	1,886,249	-	-	-	1,886,249
Total Assigned	1,886,342	-	-	10,252,291	12,138,633
Unassigned					
Reserve for economic uncertainties	12,725,712	-	-	-	12,725,712
Remaining unassigned	39,083,849	-	-	-	39,083,849
Total Unassigned	51,809,561	-	-	-	51,809,561
Total	\$59,096,842	\$ 15,406,179	\$ 22,841,319	\$ 25,020,817	\$ 122,365,157

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

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

Funds	Expenditures		
	Budget	Actual*	Excess
General Fund	<u>\$ 256,496,264</u>	<u>\$ 261,938,798</u>	<u>\$ 5,442,534</u>

* Actual expenditures include on behalf payments of \$6,321,937.

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Saddleback Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 330 retirees and beneficiaries currently receiving benefits and 1,737 active plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (SVEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-2015, the District contributed \$4,684,699 to the Plan, all of which was used for current premiums (approximately 100 percent of total premiums).

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 7,477,108
Interest on net OPEB obligation	772,166
Adjustment to annual required contribution	<u>(1,162,536)</u>
Annual OPEB cost (expense)	7,086,738
Contributions made	<u>(4,684,699)</u>
Increase in net OPEB obligation	2,402,039
Net OPEB obligation, beginning of year	<u>16,256,124</u>
Net OPEB obligation, end of year	<u><u>\$ 18,658,163</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 7,795,650	\$ 5,305,066	68%	\$ 13,438,131
2014	7,154,409	4,336,416	61%	16,256,124
2015	7,086,738	4,684,699	66%	18,658,163

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 1, 2013	\$ -	\$ 61,231,696	\$ 61,231,696	0%	\$ 156,340,484	39%

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Actuarial Methods and Assumptions

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

In the June 1, 2013, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial ten percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2015, was 23 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a \$1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to \$5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 16 for additional information relating to public entity risk pools.

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

Claims Liabilities

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2013 to June 30, 2015:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2013	\$ 2,806,109	\$ 8,450,000	\$ -	\$ 11,256,109
Claims and changes in estimates	19,763,689	1,275,584	1,161,010	22,200,283
Claims payments	(20,202,612)	(1,275,584)	(1,161,010)	(22,639,206)
Liability Balance, June 30, 2014	2,367,186	8,450,000	-	10,817,186
Claims and changes in estimates	21,237,997	3,123,820	1,267,044	25,628,861
Claims payments	(21,532,122)	(2,328,820)	(1,267,044)	(25,127,986)
Liability Balance, June 30, 2015	\$ 2,073,061	\$ 9,245,000	\$ -	\$ 11,318,061
Assets available to pay claims at June 30, 2015	\$ 13,373,905	\$ 14,712,371	\$ 437,132	\$ 28,523,408

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 146,436,112	\$ 10,746,957	\$ 36,059,614	\$ 12,642,165
CalPERS	33,241,819	3,871,354	12,896,720	2,954,519
Total	\$ 179,677,931	\$ 14,618,311	\$ 48,956,334	\$ 15,596,684

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

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

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$10,746,957.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	146,436,112
State's proportionate share of the net pension liability associated with the District		88,424,447
Total	\$	<u>234,860,559</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was .2506 percent.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$12,642,165. In addition, the District recognized revenue and pension expense of \$6,321,937 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,746,957	\$ -
Difference between projected and actual earnings on pension plan investments	-	36,059,614
Total	<u>\$ 10,746,957</u>	<u>\$ 36,059,614</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year Ended June 30,	Amortization
2016	\$ 9,014,905
2017	9,014,903
2018	9,014,903
2019	9,014,903
Total	<u>\$ 36,059,614</u>

Actuarial Methods and Assumptions

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 228,255,602
Current discount rate (7.60%)	146,436,112
1% increase (8.60%)	78,213,528

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$3,871,354.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$33,241,819. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.2928 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$2,954,519. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,871,354	\$ -
Net change in proportionate share of net pension liability	-	1,474,459
Difference between projected and actual earnings on pension plan investments	-	11,422,261
Total	<u>\$ 3,871,354</u>	<u>\$ 12,896,720</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflow of resources related to the net change in proportionate share of net pension liability will be amortized over the expected average remaining service lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years, and the pension expense will be recognized as follows:

Year Ended June 30,	Amortization
2016	\$ 491,487
2017	491,487
2018	491,485
Total	<u>\$ 1,474,459</u>

The deferred inflow of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 2,855,566
2017	2,855,565
2018	2,855,565
2019	2,855,565
Total	<u>\$ 11,422,261</u>

Actuarial Methods and Assumptions

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

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 58,313,738
Current discount rate (7.50%)	33,241,819
1% increase (8.50%)	12,291,702

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$6,321,937 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Construction Commitments

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

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
All Elementary Schools Safety and Security Cameras	\$ 320,987	08/31/15
Cielo Vista Elementary School - Asphalt Work	159,398	08/31/15
District Office - Data Center Upgrades	9,169	08/31/15
Laguna Hills High School - Field Renovations	12,947	08/31/15
Trabuco Mesa Elementary School - Asphalt Work	133,530	08/31/15
Mission Viejo High School - Partial Modernization	1,663,588	03/31/16
District Office - Remodeling Project	129,375	04/30/16
Energy Conservation	1,451,517	05/31/16
Trabuco Hills High School - Modernization	613,851	06/30/16
Cielo Vista Elementary School - Modernization	120,249	03/31/17
Trabuco Mesa Elementary School - Asphalt Modernization	140,225	03/31/17
Rancho Santa Margarita Intermediate School - Concrete Replacement	48,263	08/31/17
	<u>\$ 4,803,099</u>	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

During the year ended June 30, 2015, the District made payments of \$1,096,483 and \$103,328 to ASCIP and SELF, respectively, for property and liability coverage, and excess liability workers' compensation coverage.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Statement of Net Position

Net Position - Beginning	\$ 330,559,488
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(226,366,531)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	<u>12,725,132</u>
Net Position - Beginning as Restated	<u><u>\$ 116,918,089</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 202,388,262	\$ 203,434,163	\$ 204,988,263	\$ 1,554,100
Federal sources	9,363,079	10,962,979	9,708,033	(1,254,946)
Other State sources	24,773,353	27,878,829	35,034,031	7,155,202
Other local sources	3,071,220	4,494,917	4,258,525	(236,392)
Total Revenues ¹	239,595,914	246,770,888	253,988,852	7,217,964
EXPENDITURES				
Current				
Certificated salaries	118,446,159	124,299,366	124,299,366	-
Classified salaries	29,987,670	32,665,738	32,665,737	1
Employee benefits	52,287,825	52,264,266	58,586,202	(6,321,936)
Books and supplies	9,452,845	9,186,695	8,950,868	235,827
Services and operating expenditures	22,819,694	31,614,903	29,896,761	1,718,142
Other outgo	5,652,261	5,813,900	5,813,900	-
Capital outlay	226,323	651,396	1,725,964	(1,074,568)
Total Expenditures ¹	238,872,777	256,496,264	261,938,798	(5,442,534)
NET CHANGE IN FUND BALANCES	723,137	(9,725,376)	(7,949,946)	1,775,430
Fund Balances - Beginning	67,046,788	67,046,788	67,046,788	-
Fund Balances - Ending	\$ 67,769,925	\$ 57,321,412	\$ 59,096,842	\$ 1,775,430

¹ On behalf payments of \$6,321,937 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, however is not included in the original and final General Fund budgets.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
May 1, 2009	\$ -	\$ 62,728,650	\$ 62,728,650	0%	\$ 145,289,791	43%
May 1, 2011	-	69,499,969	69,499,969	0%	141,776,020	49%
June 1, 2013	-	61,231,696	61,231,696	0%	156,340,484	39%

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.2506%</u>
District's proportionate share of the net pension liability	\$ 146,436,112
State's proportionate share of the net pension liability associated with the District	<u>88,424,447</u>
Total	<u><u>\$ 234,860,559</u></u>
District's covered - employee payroll	<u>\$ 112,077,239</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>130.66%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
CalPERS	
District's proportion of the net pension liability	<u>0.2928%</u>
District's proportionate share of the net pension liability	<u>\$ 33,241,819</u>
District's covered - employee payroll	<u>\$ 30,426,737</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>109.25%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 10,746,957
Contributions in relation to the contractually required contribution	<u>(10,746,957)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 121,024,291</u>
Contributions as a percentage of covered - employee payroll	<u>8.88%</u>
 CalPERS	
Contractually required contribution	\$ 3,871,354
Contributions in relation to the contractually required contribution	<u>(3,871,354)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 32,888,913</u>
Contributions as a percentage of covered - employee payroll	<u>11.771%</u>

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

SUPPLEMENTARY INFORMATION

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Teaching American History	84.215X	[1]	\$ 15,584
Passed through California Department of Education (CDE):			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education and ESL	84.002A	14508	54,160
Adult Basic Education and Civics Education	84.002A	14109	283
Adult Secondary Education	84.002A	13978	5,476
Total Adult Education - Basic Grants to States Cluster			59,919
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected	84.010	14329	2,357,077
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	13,180
Title II, Part A - Improving Teacher Quality	84.367	14341	448,393
Title III, Immigrant and Limited English Proficiency Program Cluster:			
Title III, Immigrant Education Program	84.365	14346	18,975
Title III, Limited English Proficiency	84.365	10084	461,038
Total Title III, Immigrant and Limited English Proficiency Program Cluster			480,013
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	5,030,318
Local Assistance Private Schools ISP	84.027	10115	51,394
Federal Preschool	84.173	13430	144,694
Preschool Local Entitlement	84.027A	13682	317,519
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	356,197
Preschool Staff Development	84.173A	13431	132
Quality Assurance and Focused Monitoring, Part B, Section 611	84.027	13693	961
Total Special Education (IDEA) Cluster			5,901,215
Early Intervention Grants	84.181	23761	30,148
Carl D. Perkins Vocational and Technical Education Act			
Secondary Education	84.048	14894	174,672
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	539,880
Total U.S. Department of Education			10,020,081

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	\$ 2,713,895
Especially Needy Breakfast Program	10.553	13390	558,069
Basic Breakfast Program	10.553	13390	23,927
Commodities	10.555	13389	456,952
Total Child Nutrition Cluster			<u>3,752,843</u>
Forest Reserve	10.665	10044	12,753
Total U.S. Department of Agriculture			<u>3,765,596</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medical Assistance Program:			
Medi-Cal Billing Option	93.778	10013	326,772
Total U.S. Department of Health and Human Services			<u>326,772</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant - Child Care, City of Lake Forest	14.218	[1]	4,997
Community Development Block Grant - Child Care, City of Mission Viejo	14.218	[1]	7,500
Total U.S. Department of Housing and Urban Development			<u>12,497</u>
Total Expenditures of Federal Awards			<u>\$ 14,124,946</u>

[1] Direct award.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Susie R. Swartz	President	2018
Ginny Fay Aitkens	Vice President	2016
Dolores Winchell	Clerk	2016
Dennis Walsh	Member	2018
Amanda Morrell	Member	2016

ADMINISTRATION

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

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,225.46	7,229.91
Fourth through sixth	5,893.50	5,887.58
Seventh and eighth	4,274.76	4,271.56
Ninth through twelfth	9,535.55	9,467.56
Total Regular ADA	26,929.27	26,856.61
Extended Year Special Education		
Transitional kindergarten through third	16.28	16.28
Fourth through sixth	16.98	16.98
Seventh and eighth	4.68	4.68
Ninth through twelfth	19.96	19.96
Total Extended Year Special Education	57.90	57.90
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	4.47	4.32
Fourth through sixth	2.85	3.52
Seventh and eighth	5.58	5.73
Ninth through twelfth	12.23	11.12
Total Special Education, Nonpublic, Nonsectarian Schools	25.13	24.69
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.46	0.46
Fourth through sixth	0.22	0.22
Seventh and eighth	0.33	0.43
Ninth through twelfth	2.63	2.52
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.64	3.63
Total ADA	27,015.94	26,942.83
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	639.00	639.53
Fourth through sixth	390.68	392.01
Total Regular ADA	1,029.68	1,031.54
Classroom Based ADA		
Transitional kindergarten through third	639.00	639.53
Fourth through sixth	390.68	392.01
Total Classroom Based ADA	1,029.68	1,031.54

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87	Reduced	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,000	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,400	180	-	Complied
Grade 2			50,400	180	-	Complied
Grade 3			50,400	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			54,000	180	-	Complied
Grade 5			54,000	180	-	Complied
Grade 6			54,000	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			58,990	180	-	Complied
Grade 8			58,990	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			69,875	180	-	Complied
Grade 10			69,875	180	-	Complied
Grade 11			69,875	180	-	Complied
Grade 12			69,875	180	-	Complied

Gates Charter School

Grade Level	1986-87	Reduced	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	34,971	36,000	180	-	Complied
Grades 1 - 3	50,400	48,960				
Grade 1			50,496	180	-	Complied
Grade 2			50,496	180	-	Complied
Grade 3			50,496	180	-	Complied
Grades 4 - 6	54,000	52,457				
Grade 4			54,096	180	-	Complied
Grade 5			54,096	180	-	Complied
Grade 6			54,096	180	-	Complied

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	(Budget) 2016 ¹	2015	2014	2013
GENERAL FUND⁵				
Revenues	\$ 274,498,289	\$ 252,899,544	\$ 241,693,196	\$ 230,214,571
Other sources	-	-	-	182,275
Total Revenues and Other Sources	274,498,289	252,899,544	241,693,196	230,396,846
Expenditures	268,247,037	260,836,173	229,076,923	227,046,502
Other uses and transfers out	-	-	586,391	500,000
Total Expenditures and Other Uses	268,247,037	260,836,173	229,663,314	227,546,502
INCREASE (DECREASE) IN FUND BALANCE	\$ 6,251,252	\$ (7,936,629)	\$ 12,029,882	\$ 2,850,344
ENDING FUND BALANCE	\$ 65,348,001	\$ 59,096,749	\$ 67,033,378	\$ 55,003,496
AVAILABLE RESERVES²	\$ 61,494,718	\$ 51,809,561	\$ 57,580,267	\$ 46,621,510
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	22.92%	20.36%	25.76%	21.02%
LONG-TERM OBLIGATIONS	N/A	\$ 190,932,462	\$ 205,966,550	\$ 200,783,202
K-12 AVERAGE DAILY ATTENDANCE AT P-2⁴	27,593	28,046	28,719	29,208

The General Fund balance has increased by \$4,093,253 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$6,251,252 (10.6 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have decreased by \$9,850,740 over the past two years.

Average daily attendance has decreased by 1,162 over the past two years. An additional decline of 453 ADA is anticipated during fiscal year 2015-2016.

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

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

³ On behalf payments of \$6,321,937 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2015.

⁴ Average daily attendance includes Gates Charter School.

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

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2015**

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

See accompanying note to supplementary information.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
ASSETS					
Deposits and investments	\$ -	\$ 94,889	\$ 3,920,865	\$ 738,867	\$ 5,970,093
Receivables	722,886	55,677	165,152	319,299	2,227
Due from other funds	-	202	-	109,763	223,598
Prepaid expenses	-	5,496	152,568	29,995	8,052
Stores inventories	-	-	-	38,100	-
Total Assets	<u>\$ 722,886</u>	<u>\$ 156,264</u>	<u>\$ 4,238,585</u>	<u>\$ 1,236,024</u>	<u>\$ 6,203,970</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 722,886	\$ 79,230	\$ 628,323	\$ 412,690	\$ 640,987
Due to other funds	-	31,818	567,700	283,744	202
Unearned revenue	-	-	570,054	131,992	-
Total Liabilities	<u>722,886</u>	<u>111,048</u>	<u>1,766,077</u>	<u>828,426</u>	<u>641,189</u>
Fund Balances:					
Nonspendable	-	5,496	152,568	68,095	8,052
Restricted	-	-	-	339,503	5,554,729
Committed	-	39,720	-	-	-
Assigned	-	-	2,319,940	-	-
Total Fund Balances	<u>-</u>	<u>45,216</u>	<u>2,472,508</u>	<u>407,598</u>	<u>5,562,781</u>
Total Liabilities and Fund Balances	<u>\$ 722,886</u>	<u>\$ 156,264</u>	<u>\$ 4,238,585</u>	<u>\$ 1,236,024</u>	<u>\$ 6,203,970</u>

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 243,594	\$ 8,700,579	\$ 655,031	\$ 7,980,212	\$ 28,304,130
91	3,140	50,872	-	1,319,344
-	-	-	-	333,563
-	-	-	-	196,111
-	-	-	-	38,100
<u>\$ 243,685</u>	<u>\$ 8,703,719</u>	<u>\$ 705,903</u>	<u>\$ 7,980,212</u>	<u>\$ 30,191,248</u>

\$ 13	\$ 771,368	\$ 329,424	\$ -	\$ 3,584,921
-	-	-	-	883,464
-	-	-	-	702,046
<u>13</u>	<u>771,368</u>	<u>329,424</u>	<u>-</u>	<u>5,170,431</u>
-	-	-	-	234,211
243,672	-	-	7,980,212	14,118,116
-	-	376,479	-	416,199
-	7,932,351	-	-	10,252,291
<u>243,672</u>	<u>7,932,351</u>	<u>376,479</u>	<u>7,980,212</u>	<u>25,020,817</u>
<u>\$ 243,685</u>	<u>\$ 8,703,719</u>	<u>\$ 705,903</u>	<u>\$ 7,980,212</u>	<u>\$ 30,191,248</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund
REVENUES					
Local Control Funding Formula	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -
Federal sources	505,820	59,919	12,497	3,752,843	-
Other State sources	1,674,770	-	-	274,438	-
Other local sources	-	183,708	8,639,529	2,214,796	27,342
Total Revenues	2,180,590	1,243,627	8,652,026	6,242,077	27,342
EXPENDITURES					
Current					
Instruction	-	764,403	-	-	-
Instruction-related activities:					
Supervision of instruction	-	82,830	-	-	-
School site administration	-	251,454	-	-	-
Pupil services:					
Food services	-	-	-	6,064,788	-
All other pupil services	-	76,579	-	-	-
Administration:					
All other administration	-	31,165	-	203,964	-
Plant services	-	46,220	56,889	24,223	-
Facility acquisition and construction	-	-	795,705	-	710,491
Community services	-	-	8,200,577	-	-
Other outgo	2,180,590	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	2,180,590	1,252,651	9,053,171	6,292,975	710,491
NET CHANGE IN FUND BALANCES	-	(9,024)	(401,145)	(50,898)	(683,149)
Fund Balances - Beginning	-	54,240	2,873,653	458,496	6,245,930
Fund Balances - Ending	\$ -	\$ 45,216	\$ 2,472,508	\$ 407,598	\$ 5,562,781

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,000,000
-	-	-	-	4,331,079
-	-	-	85,396	2,034,604
2,039	3,323,067	294,767	9,602,485	24,287,733
2,039	3,323,067	294,767	9,687,881	31,653,416
-	-	-	-	764,403
-	-	-	-	82,830
-	-	-	-	251,454
-	-	-	-	6,064,788
-	-	-	-	76,579
-	-	-	-	235,129
-	5,592	-	-	132,924
4,000	4,247,036	398,899	-	6,156,131
-	-	-	-	8,200,577
-	-	-	-	2,180,590
-	-	-	4,600,000	4,600,000
178	-	-	5,775,062	5,775,240
4,178	4,252,628	398,899	10,375,062	34,520,645
(2,139)	(929,561)	(104,132)	(687,181)	(2,867,229)
245,811	8,861,912	480,611	8,667,393	27,888,046
\$ 243,672	\$ 7,932,351	\$ 376,479	\$ 7,980,212	\$ 25,020,817

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that were recorded in the previous period as revenues, but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 14,039,112
Medi-Cal Billing Option	93.778	85,834
Total Schedule of Expenditures of Federal Awards		<u>\$ 14,124,946</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Saddleback Valley Unified School District's basic financial statements, and have issued our report thereon dated December 4, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Saddleback Valley Unified School District in a separate letter dated December 4, 2015.

Purpose of This Report

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

VAUZAN ELECTRONICS DAY EQUIP

Rancho Cucamonga, California
December 4, 2015



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

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

VAUZAN, TIZAS. Day + cup

Rancho Cucamonga, California
December 4, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion on Each of the Programs

In our opinion, Saddleback Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2015.

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

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

We did not perform any related procedures for the Independent Study because ADA for the program was below the materiality threshold required for testing.

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

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

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

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

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

The District does not offer these programs applicable to its Charter School; therefore, we did not perform any procedures for the programs noted above.

VADZNEK, TIZINS. Day + Camp

Rancho Cucamonga, California
December 4, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>423,748</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

None reported.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

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

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

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

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 4, 2015, on the government-wide financial statements of the District.

FIXED ASSETS

Observation

Financial statements prepared in accordance with GASB Statement No. 34 must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress". While the District does have an adequate method of tracking and monitoring its capital assets activities, a reconciliation between the items scanned at various locations and the items reported in the fixed asset module is not performed. The District's capital assets reported on the government-wide statements can easily be subject to misstatements.

Recommendation

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

ASSOCIATED STUDENT BODY (ASB)

Mission Viejo High School

Observations

During our testing over ASB Funds, we noted the following exceptions:

- 1) For eight of 16 disbursements selected for testing, the "disbursement request" form was signed by the appropriate approvers after the invoice had been generated, thus appearing that the disbursements had not been pre-approved.
- 2) Five of the 13 disbursements selected for testing lacked the three required signatures as required by *Education Code* Section 48933(b).
- 3) Seven of the 48 cash receipts tested had a delay of up to 10 days prior to being deposited into the bank.
- 4) One of the three revenue potential forms selected was not properly completed. The form did not include the actual amounts collected from the fundraising activity.
- 5) The ASB is not maintaining perpetual inventory documentation/supporting documentation to support cash collected from sales.

Recommendations

We recommend the following for each observation:

- 1) The fact that the disbursement request form was signed after the invoice was generated indicates that there may be a risk of disbursements not going through the proper approval process. If approval procedures are not followed, this may cause a club to spend more than what they have budgeted.
- 2) We recommend that the site begin to implement a review process to verify that all three approvers (ASB representative, faculty advisor, or site administrators) have signed the pre-approval forms prior to making contact with the vendors. By implementing a review procedure, this should help identify the exception and keep the ASB in compliance with *Education Code* Section 48933(b).
- 3) Cash should be deposited on a weekly basis. Cash sitting for long periods of time raises the risk of cash being misplaced or stolen. In addition, it may hinder club activities if they have to wait for cash to be posted in order to proceed with their next event.
- 4) Revenue potential forms are vital internal control tools and should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential forms also indicate weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all monies due, and so forth. The site administrator should ensure that these forms are properly completed.
- 5) The student store advisor should keep perpetual inventory documentation for student store sales and fundraisers. Perpetual inventory documentation/daily sales forms document the items sold and at the price sold which will assist the ASB in identifying lost or stolen merchandise.

Rancho Santa Margarita Middle School

Observations

During our testing over ASB Funds, we noted the following exceptions:

1. Three of 14 deposits tested were not deposited in a timely manner. The delay in deposit was approximately 10 to 14 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. The site has a \$200 change fund. However, it is not reflected on their financial report.
3. Nine of 15 disbursements selected for testing were not pre-approved within the ASB minutes. In addition, we noted all 15 disbursements selected did not have a purchase request form present. This would result in cash disbursements being made without the required three signatures of approval. All 15 disbursements were made without the required three signatures of approval.
4. Two fundraisers were not pre-approved within the ASB minutes. In addition, the two fundraisers did not have the revenue potential forms completed.

Recommendations

1. At a minimum, the ASB should make deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. The site should have documentation showing the District approved for them to have a change fund/petty cash fund. This amount should be displayed on the site's year-end ASB financial statements. The lack of documentation of the change fund/petty cash fund may result in the ASB assets being understated.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure all disbursement transactions are pre-approved by authorized administrative personnel and the student council. The purpose of a purchase request form is to document pre-approval of disbursements. It ensures the expenditure was approved by students and an administrator. It is imperative an administrator review the expenditures prior to purchase to ensure that the expenditure is appropriate for students. ASB should make sure the expenditure authorization form is signed by three authorized individuals. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
4. All fundraisers should be pre-approved within the ASB minutes. All revenue potential forms must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected and actual sales with an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure these forms are completed and turned in to the bookkeeper at the conclusion of the fundraiser.

Silverado High School

Observations

During our testing over ASB Funds, we noted the following exceptions:

1. Cash is not being deposited in its entirety. We noted the site collected \$723 for October and November, but only deposited \$585. The site keeps the remaining cash on hand for a change fund. The site was unable to provide the District's approval for the change fund. We also noted that the change fund lacks an imprest amount.
2. Six of 11 disbursements selected for testing lacked pre-approval of the purchase.
3. An inventory log is not maintained for gift cards and movie tickets that are given to students as an incentive.
4. The site does not maintain a perpetual inventory over "Spirit Wear" items sold for ASB.

Recommendations

1. The site should deposit all cash received in its entirety. The receipt amount should equal the deposit amount. If the site needs to have a change fund on hand, it should request an approval from the District. The site should maintain documentation acknowledging District approval for the change fund/petty cash fund. This amount should be displayed on the site's year-end ASB financial statements to ensure the ASB assets are not understated. In addition, the District needs to set an imprest amount for the fund. Without an imprest amount, there is a lack of control over the fund which increases the risk of cash being taken.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow for the reviewing of the proposed activities as appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. An inventory log should be maintained for these incentive items in order to improve the tracking of these items. Additionally, the log can assist in identifying any gift card/movie ticket that is not accounted for. This can also reduce the risk of misappropriation of assets.
4. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count of "Spirit Wear". A physical inventory should be taken at least once a year under the supervision of an advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary to analyze sales activity and profits, and to determine if merchandise has been lost or stolen.

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

VAJZNEK, TRINIS. Day + COUP

Rancho Cucamonga, California
December 4, 2015