



**RIO ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

RIO ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Rio Elementary School District
Oxnard, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rio Elementary School District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13, and budgetary comparison and other postemployment benefit information on pages 53 and 54, 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 Rio Elementary School District's basic financial statements. The accompanying supplementary information such as the 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 15, 2014, on our consideration of the Rio Elementary 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 Rio Elementary School District's internal control over financial reporting and compliance.

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 15, 2014



Board of Trustees
Ramon Rodriguez, President
Matt Klinefelter, Clerk
Celia Robles
Eleanor Torres
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Superintendent
John Puglisi Ph.D

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This section of Rio Elementary School District's (the District) 2013-2014 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014, with comparative information for 2012-2013. 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 activities separately. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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

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

The *Fiduciary Activities* are agency funds, which 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 Rio Elementary School District.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, one way to measure the District's *financial health*, or *financial position*. Over time, increases or decreases in the District's net position are one indicator of whether its *financial health* 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 eight students and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide financial 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. The District has no internal service funds.

THE DISTRICT AS 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 and employee retiree benefits. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$92.0 million for the fiscal year ended June 30, 2014. Of this amount, \$(13.1) million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use the net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and changes in the net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 18.5	\$ 22.2
Capital assets	121.2	99.4
Total Assets	139.7	121.6
Liabilities		
Current liabilities	7.2	9.3
Long-term obligations	40.5	38.8
Total Liabilities	47.7	48.1
Net Position		
Net investment in capital assets	100.9	73.4
Restricted	4.2	4.5
Unrestricted (Deficit)	(13.1)	(4.4)
Total Net Position	\$ 92.0	\$ 73.5

The \$(13.1) million in unrestricted (deficit) net position of governmental activities represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our non-capital liabilities (bonds as an example); we would have a \$(13.1) million deficit.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Changes in Net Position

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

Table 2

(Amounts in millions)	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 0.2	\$ 0.4
Operating grants and contributions	14.1	10.7
Capital grants and contributions	-	0.3
General revenues:		
Federal and State aid not restricted	22.7	17.5
Property taxes	13.4	10.6
Other general revenues	19.5	0.9
Total Revenues	69.9	40.4
Expenses		
Instruction-related	32.3	28.0
Student support services	5.9	5.4
Administration	5.4	3.3
Plant services	3.9	3.4
Other	3.9	2.7
Total Expenses	51.4	42.8
Change in Net Position	\$ 18.5	\$ (2.4)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$51.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$13.4 million (levied for general purposes and for debt service) because the cost was paid by those who benefited from the programs was \$0.2 million, and by other governments and organizations who subsidized certain programs with grants and contributions was \$14.1 million. We paid for the remaining "public benefit" portion of our governmental activities with \$22.7 million in unrestricted Federal and State funds, and \$19.5 million in interest and investment earnings and other revenues.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

In Table 3, we have presented the cost and net cost of each of the District's largest functions - instruction, instruction-related services, student support services, administration, plant services, and other. 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

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	\$ 28.0	\$ 23.7	\$ 22.6	\$ 18.9
Instruction-related activities	4.3	4.3	3.8	3.3
Student support services	5.9	5.4	2.5	1.9
Administration	5.4	3.3	5.1	3.0
Plant services	3.9	3.4	3.8	3.3
Other	3.9	2.7	(0.7)	1.1
Total	\$ 51.4	\$ 42.8	\$ 37.1	\$ 31.5

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$11.7 million, which is a decrease of \$1.3 million over last year.

Table 4

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 8,472,097	\$ 39,151,119	\$ 41,241,420	\$ 6,381,796
Capital Facilities Fund	1,768,236	893,605	1,124,080	1,537,761
County Schools Facilities Fund	1,060,204	2,648	166,990	895,862
CFD Capital Projects	5,717	25,795,380	24,370,783	1,430,314
Cafeteria Fund	470,468	3,232,044	3,613,716	88,796
Building Fund	11,179	35,474	91	46,562
Bond Interest and Redemption Fund	1,190,805	1,402,346	1,303,581	1,289,570
Total	\$ 12,978,706	\$ 70,512,616	\$ 71,820,661	\$ 11,670,661

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 25, 2014. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 53).

1. Local Control Funding Formula variances can be attributed to the inclusion of special education students served at Ventura Office of Education and higher daily student attendance than previously estimated. The increase in other State revenue is primarily attributable to recognizing CalSTRS on behalf payment of \$790,148 in actual State revenues, but was not included in the budgeted amounts.
2. The majority of the variance in reporting employee benefits are attributable to recognizing CalSTRS on-behalf payment of \$790,148 in actual revenues and expenditures, but were not included in the budgeted amounts. Overall actual year-end expenditures were less than budgeted. As a note, categorical program budgets which were not fully expended are reserved and carried over to the next fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had \$121.2 million in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$21.8 million, or 21.9 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities	
	2014	2013
Land	\$ 11.1	\$ 11.1
Construction in progress	0.2	1.9
Buildings and improvements	109.1	85.4
Equipment	0.8	1.0
Total	\$ 121.2	\$ 99.4

Due to the second issuance of Community Facilities District bonds, additional expenses related to the purchase of Rio Vista and Rio del Mar schools were capitalized in 2013-2014.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Long-Term Obligations

At the end of this year, the District had \$40.5 million in long-term obligations outstanding versus \$38.8 million last year, an increase of 4.4 percent. The long-term obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2014	2013
General obligation bonds	\$ 14.0	\$ 14.7
Premium on issuance	0.5	0.6
Certificates of participation	7.2	7.4
Lease purchase agreement	3.0	3.3
Compensated absences	0.3	0.2
Supplemental retirement payments	0.1	0.1
Legal settlement	0.1	0.1
Litigation	11.0	9.3
Other postemployment benefits (OPEB)	4.3	3.1
Total	\$ 40.5	\$ 38.8

The District's general obligation bond rating for the last bond sale in August 2007 was "AAA". The State limits the amount of general obligation debt that districts can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$14.0 million is below the statutorily-imposed limit.

Other obligations include compensated absences payable, postemployment benefits (other than health benefits), and other long-term obligations. Litigation obligations are a result of an adverse ruling on the payment opposing counsel's legal fees by the District in the on-going FTR lawsuit. The litigation obligations increased during 2013-2014 due to interest and penalty charges. More detailed information regarding long-term obligations is reported in the financial statements.

RIO ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

1. Changes in the LCFF for 2014-2015 include a significant increase for the District in the second year implementation of the LCFF plus a projected enrollment growth of 80 students.
2. As part of the District's Local Control Accountability Plan, the District implemented class size reduction for kindergarten students and a full day program for kindergarten students.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grade kindergarten	24:1	663
Grades first through third	30:1	2,507
Grades four through eight	32:1	1,711

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, Business Services, at Rio School District, 2500 Vineyard Avenue, Oxnard, California, 93036, or e-mail at kpifko@rioschools.org.

RIO ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities
ASSETS	
Deposits and investments	\$ 11,344,670
Receivables	7,074,459
Prepaid expenses	8,265
Stores inventories	59,992
Capital Assets	
Land and construction in process	11,342,862
Other capital assets	138,009,841
Less: accumulated depreciation	<u>(28,119,123)</u>
Total Capital Assets	<u>121,233,580</u>
Total Assets	<u><u>139,720,966</u></u>
LIABILITIES	
Accounts payable	4,940,690
Accrued interest payable	411,620
Unearned revenue	51,035
Current loans	1,825,000
Long-Term Obligations	
Current portion of long-term obligations	1,347,018
Noncurrent portion of long-term obligations	<u>39,129,619</u>
Total Long-Term Obligations	<u>40,476,637</u>
Total Liabilities	<u><u>47,704,982</u></u>
NET POSITION	
Net investment in capital assets	100,936,612
Restricted for:	
Debt service	877,950
Capital projects	2,433,623
Educational programs	829,115
Child Nutrition program	74,316
Unrestricted deficit	<u>(13,135,632)</u>
Total Net Position	<u><u>\$ 92,015,984</u></u>

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

RIO ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 27,992,537	\$ 523	\$ 5,367,363	\$ 2,648	\$ (22,622,003)
Instruction-related activities:					
Supervision of instruction	942,446	367	374,387	-	(567,692)
Instructional library, media, and technology	577,964	-	54,865	-	(523,099)
School site administration	2,789,497	34	81,508	-	(2,707,955)
Pupil services:					
Home-to-school transportation	782,790	-	13,475	-	(769,315)
Food services	3,344,727	150,699	2,568,843	-	(625,185)
All other pupil services	1,760,230	-	619,506	-	(1,140,724)
Administration:					
Data processing	458,745	-	6,271	-	(452,474)
All other administration	4,951,922	5,641	311,079	-	(4,635,202)
Plant services	4,451,890	98	56,747	-	(4,395,045)
Ancillary services	21,044	-	14,029	-	(7,015)
Community services	9,341	-	-	-	(9,341)
Interest on long-term obligations	1,600,437	-	-	-	(1,600,437)
Other outgo	1,751,353	8,429	4,671,443	-	2,928,519
Total Governmental Activities	\$ 51,434,923	\$ 165,791	\$ 14,139,516	\$ 2,648	(37,126,968)

General Revenues and Subventions:

Property taxes, levied for general purposes	8,077,723
Property taxes, levied for debt service	5,046,868
Taxes levied for other specific purposes	251,050
Federal and State aid not restricted to specific purposes	22,651,331
Interest and investment earnings	35,760
Miscellaneous	19,518,307
Subtotal, General Revenues	55,581,039
Change in Net Position	18,454,071
Net Position - Beginning	73,561,913
Net Position - Ending	\$ 92,015,984

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

RIO ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 4,655,524	\$ 2,897,728	\$ 896,091
Receivables	6,478,795	16,354	32,169
Due from other funds	348,676	943,105	1,956,515
Prepaid expenditures	8,265	-	-
Stores inventories	45,512	-	-
Total Assets	\$ 11,536,772	\$ 3,857,187	\$ 2,884,775
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,654,168	\$ 125,911	\$ 1,988,913
Due to other funds	624,773	2,193,515	-
Other current liabilities	1,825,000	-	-
Unearned revenue	51,035	-	-
Total Liabilities	5,154,976	2,319,426	1,988,913
Fund Balances:			
Nonspendable	58,777	-	-
Restricted	829,115	1,537,761	895,862
Assigned	3,710,035	-	-
Unassigned	1,783,869	-	-
Total Fund Balances	6,381,796	1,537,761	895,862
Total Liabilities and Fund Balances	\$ 11,536,772	\$ 3,857,187	\$ 2,884,775

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

Capital Project Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,492,291	\$ 1,403,036	\$ 11,344,670
-	547,141	7,074,459
-	38,668	3,286,964
-	-	8,265
-	14,480	59,992
<u>\$ 1,492,291</u>	<u>\$ 2,003,325</u>	<u>\$ 21,774,350</u>
\$ 61,977	\$ 109,721	\$ 4,940,690
-	468,676	3,286,964
-	-	1,825,000
-	-	51,035
<u>61,977</u>	<u>578,397</u>	<u>10,103,689</u>
-	14,480	73,257
1,430,314	1,363,886	6,056,938
-	46,562	3,756,597
-	-	1,783,869
<u>1,430,314</u>	<u>1,424,928</u>	<u>11,670,661</u>
<u>\$ 1,492,291</u>	<u>\$ 2,003,325</u>	<u>\$ 21,774,350</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 11,670,661
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, they are not reported as assets in the governmental funds.		
The cost of capital assets is	\$ 149,352,703	
Accumulated depreciation is	<u>(28,119,123)</u>	
Net Capital Assets		121,233,580
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.		
		(411,620)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, they are not reported as liabilities in the funds. However, long-term obligations are recognized in the government-wide financial statements.		
Long-term obligations at year-end consist of:		
General obligation bonds	(14,040,000)	
Certificates of participation	(7,145,000)	
Unamortized premium	(559,965)	
Compensated absences	(261,396)	
Capital lease obligation	(28,879)	
Supplement retirement payments	(106,000)	
Legal settlement	(78,156)	
Litigation	(11,000,000)	
Lease purchase agreement	(2,955,173)	
Other postemployment benefits	<u>(4,302,068)</u>	
Total Long-Term Obligations		<u>(40,476,637)</u>
Total Net Position - Governmental Activities		<u><u>\$ 92,015,984</u></u>

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

RIO ELEMENTARY SCHOOL DISTRICT

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

	General Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 29,968,752	\$ -	\$ -
Federal sources	2,128,106	-	-
Other State sources	3,882,554	-	-
Other local sources	3,171,707	304,247	2,648
Total Revenues	39,151,119	304,247	2,648
EXPENDITURES			
Current			
Instruction	25,200,341	-	-
Instruction-related activities:			
Supervision of instruction	912,919	-	-
Instructional library, media and technology	558,115	-	-
School site administration	2,539,292	-	-
Pupil services:			
Home-to-school transportation	710,876	-	-
Food services	-	-	-
All other pupil services	1,656,711	-	-
Administration:			
Data processing	426,737	-	-
All other administration	2,951,052	-	-
Plant services	3,591,725	37,546	35,366
Facility acquisition and construction	71,184	497,176	131,624
Ancillary services	20,250	-	-
Community services	2,523	-	-
Other outgo	1,751,353	-	-
Debt service			
Principal	150,520	275,000	-
Interest and other	108,464	314,358	-
Total Expenditures	40,652,062	1,124,080	166,990
Excess (Deficiency) of Revenues			
Over Expenditures	(1,500,943)	(819,833)	(164,342)
Other Financing Sources (Uses)			
Transfers in	-	589,358	-
Other sources - capital lease	-	-	-
Transfers out	(589,358)	-	-
Net Financing Sources (Uses)	(589,358)	589,358	-
NET CHANGE IN FUND BALANCES	(2,090,301)	(230,475)	(164,342)
Fund Balances - Beginning	8,472,097	1,768,236	1,060,204
Fund Balances - Ending	\$ 6,381,796	\$ 1,537,761	\$ 895,862

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

Capital Project Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 29,968,752
-	2,842,032	4,970,138
-	187,757	4,070,311
25,795,380	1,606,011	30,879,993
<u>25,795,380</u>	<u>4,635,800</u>	<u>69,889,194</u>
-	-	25,200,341
-	-	912,919
-	-	558,115
-	-	2,539,292
-	-	710,876
-	3,290,076	3,290,076
-	-	1,656,711
-	-	426,737
-	112,000	3,063,052
-	-	3,664,637
24,025,168	205,262	24,930,414
-	-	20,250
-	-	2,523
-	-	1,751,353
204,027	640,185	1,269,732
141,588	669,865	1,234,275
<u>24,370,783</u>	<u>4,917,388</u>	<u>71,231,303</u>
<u>1,424,597</u>	<u>(281,588)</u>	<u>(1,342,109)</u>
-	-	589,358
-	34,064	34,064
-	-	(589,358)
-	34,064	34,064
1,424,597	(247,524)	(1,308,045)
5,717	1,672,452	12,978,706
<u>\$ 1,430,314</u>	<u>\$ 1,424,928</u>	<u>\$ 11,670,661</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ (1,308,045)**
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 are allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

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

Capital outlays	\$ 24,357,830	
Depreciation expense	<u>(2,520,133)</u>	
		21,837,697

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (200)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position. (34,064)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (cash in lieu of medical benefits) 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, compensated absences earned was more than amounts used by \$48,300. Early retirement incentive Special termination benefits earned was more than the amount used by \$4,000. (52,300)

Repayment of 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	635,000	
Capital lease obligation	19,686	
Certificates of participation	275,000	
Lease purchase agreement	<u>340,046</u>	
Combined adjustment		1,269,732

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

Amortization of debt premium	34,722	
Amortization of cost of issuance	<u>(421,648)</u>	
Combined adjustment		(386,926)

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

RIO ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2014

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 accrued interest on the general obligation bonds, certificates of participation, and municipal lease decreased by \$20,764.	\$ 20,764
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide financial statements as expense. The actual amount of the contribution was less than the annual required contribution.	(1,201,635)
Penalties and interests accrued on previously legal ruling against the District and opposing counsel fees were estimated to be an additional \$1,706,583 for the current year. While the District is the process of appealing the prior court ruling, interest and penalties will continue to accrue. 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 government-wide financial statement, however, which are presented on the accrual basis, expenses and liabilities are reported when incurred, regardless of when financial resources are available.	(1,706,583)
The District reached a settlement agreement during the 2005-2006 fiscal year. The agreement includes payments that will be made over a five-year period. Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the government-wide financial statements, however, which are presented on the accrual basis, expenses and liabilities are reported when incurred, regardless of when financial resources are available. The amount of settlement paid in the current was more than the amount incurred by \$15,631	15,631
Change in Net Position of Governmental Activities	<u>\$ 18,454,071</u>

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

RIO ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	CFD Debt Service Fund	ASB Funds	Total
ASSETS			
Deposits and investments	<u>\$ 5,973,587</u>	<u>\$ 38,945</u>	<u>\$ 6,012,532</u>
LIABILITIES			
Due to student groups	\$ -	\$ 38,945	\$ 38,945
Due to bond holders	<u>5,973,587</u>	<u>-</u>	<u>5,973,587</u>
Total Liabilities	<u>\$ 5,973,587</u>	<u>\$ 38,945</u>	<u>\$ 6,012,532</u>

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Rio Elementary School District (the District) was organized in September 1885 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 - 8 as mandated by the State and/or Federal agencies. The District operates six elementary schools and two middle schools.

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 Rio Elementary School District, this includes general operations, food services, 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 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 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 benefit of the District.

The Rio Elementary School District Financing Corporation's (the Corporation) financial activity is presented in the financial statements within the Capital Facilities Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Rio Elementary School District Financing Corporation.

The Rio Elementary School District Community Facilities District No. 1's (CFD) capital outlay activity is presented in the financial statements as the CFD Capital Projects Fund.

Special tax bonds issued by the CFD are not included as long-term liabilities in the government-wide financial statements as they are not obligations of the District. See Note 10 for additional information.

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.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 20, Special Reserve Fund for Postemployment Benefits, 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.

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund does not currently meet the definition of special revenue funds as this fund is no longer primarily composed of restricted or committed revenue sources. As the District has not taken formal action to commit the flexed revenues formerly restricted to this program to the continued operation of the original programs, the revenue within this fund would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues, and expenditures of \$4,676,785, \$3,710,035, \$13,182, and \$1,106,579, respectively.

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).

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), or the 2004 State School Facilities Fund (Proposition 55) 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.).

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).

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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* 38091 and 38100).

Capital Project Funds The Capital Project funds are used to account for and report 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.

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).

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

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 has no trust funds. 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 the CFD Debt Service and the student body activities (ASB).

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.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. 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 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.

Governmental Funds All governmental funds are accounted for using a 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 reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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 90 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.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools 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 expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General 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. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial Statement of Net Position. The valuation basis for general capital assets are 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 of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the 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, retirement credit for unused sick leave is applicable to certain school employees 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.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the 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 fund financial statements only to the extent that they are due for payment during the current year. Bonds, certificates of participation, and capital leases are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

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

Current Loans

Current loans consist of amounts outstanding at June 30, 2014, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs.

Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

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

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

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.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net 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 reports \$4,215,004 of restricted net position.

Interfund Activity

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For 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 11 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Ventura bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

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

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

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

New Accounting Pronouncements

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

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

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

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

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

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

- 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).

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

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

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

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 11,344,670
Fiduciary funds	<u>6,012,532</u>
Total Deposits and Investments	<u><u>\$ 17,357,202</u></u>

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

Cash on hand and in banks	\$ 45,539
Cash in revolving	5,000
Investments	<u>17,306,663</u>
Total Deposits and Investments	<u><u>\$ 17,357,202</u></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.

RIO ELEMENTARY SCHOOL DISTRICT

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

General Authorizations

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

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

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 County pool to provide the cash flow and liquidity needed for operations, and by purchasing a combination of shorter term and longer term investments and 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 necessary for debt service requirements.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
Ventura County Investment Pool	\$ 8,418,036	\$ 8,399,978	290
Fidelity Institutional Money Market Treasury Portfolio - Class I	1,788,749	1,788,749	44
Invesco Short-Term Treasury Portfolio	7,099,878	7,099,878	31
Total	<u>\$ 17,306,663</u>	<u>\$ 17,288,605</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Ventura County Investment Pool, Fidelity Institutional Money Market, and Invesco Short-Term Treasury Portfolio are rated AAA by Standard and Poor's rating services.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank deposits were not exposed to custodial credit risk because they were fully insured.

RIO ELEMENTARY SCHOOL DISTRICT

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

NOTE 3 - RECEIVABLES

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

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 898,783	\$ -	\$ -	\$ 440,051	\$ 1,338,834
State Government					
State principal apportionment	200,239	-	-	106,556	306,795
Categorical aid	3,720,698	-	-	-	3,720,698
Lottery	358,288	-	-	-	358,288
Special education	424,563	-	-	-	424,563
Local Sources					
Ventura county	418,816	-	-	-	418,816
Other	457,408	16,354	32,169	534	506,465
Total	<u>\$ 6,478,795</u>	<u>\$ 16,354</u>	<u>\$ 32,169</u>	<u>\$ 547,141</u>	<u>\$ 7,074,459</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 11,107,629	\$ -	\$ -	\$ 11,107,629
Construction in process	1,862,775	552,754	2,180,296	235,233
Total Capital Assets Not Being Depreciated	<u>12,970,404</u>	<u>552,754</u>	<u>2,180,296</u>	<u>11,342,862</u>
Capital Assets Being Depreciated				
Land improvements	2,755,573	318,449	-	3,074,022
Buildings and improvements	104,834,606	25,576,424	-	130,411,030
Furniture and equipment	4,455,614	90,499	21,324	4,524,789
Total Capital Assets Being Depreciated	<u>112,045,793</u>	<u>25,985,372</u>	<u>21,324</u>	<u>138,009,841</u>
Less Accumulated Depreciation				
Land improvements	2,188,511	141,599	-	2,330,110
Buildings and improvements	19,937,276	2,150,631	-	22,087,907
Furniture and equipment	3,494,327	227,903	21,124	3,701,106
Total Accumulated Depreciation	<u>25,620,114</u>	<u>2,520,133</u>	<u>21,124</u>	<u>28,119,123</u>
Governmental Activities Capital Assets, Net	<u>\$ 99,396,083</u>	<u>\$ 24,017,993</u>	<u>\$ 2,180,496</u>	<u>\$ 121,233,580</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,965,742
School site administration	151,211
Home-to-school transportation	50,404
All other pupil services	50,404
Data processing	25,151
All other general administration	126,010
Plant services	151,211
Total Depreciation Expenses Governmental Activities	<u>\$ 2,520,133</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds are as follows:

Due To	Due From			Total Governmental Funds
	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 237,000	\$ 111,676	\$ 348,676
Capital Facilities Fund	586,105	-	357,000	943,105
County School Facilities Fund	-	1,956,515	-	1,956,515
Non-Major Governmental Funds	38,668	-	-	38,668
Total	<u>\$ 624,773</u>	<u>\$ 2,193,515</u>	<u>\$ 468,676</u>	<u>\$ 3,286,964</u>

A balance of \$586,105 is due to the Capital Facilities Fund from the General Fund for required debt service payment related to the District's certificates of participation.

A balance of \$1,956,515 is due to the County School Facilities Fund from the Capital Facilities Fund for payment of District's matching funds for capital outlay projects.

A balance of \$357,000 is due to the Capital Facilities Fund from the Cafeteria Fund for operating contributions to sustain cash flow.

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

Operating Transfers

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

Transfer To	Transfer From General Funds
Capital Facilities Fund	<u>\$ 589,358</u>

The General Fund transferred to the Capital Facilities Fund for the required debt service payment related to the District's outstanding certificates of participation.

\$ 589,358

RIO ELEMENTARY SCHOOL DISTRICT

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

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Component Unit Fund	Non-Major Governmental Funds	Total Governmental Funds
Materials and supplies	\$ 252,172	\$ -	\$ -	\$ -	\$ 99,118	\$ 351,290
Services	1,590,438	45,213	20,646	472	2,048	1,658,817
State principal apportionment	577,991	-	-	-	-	577,991
Salaries and benefits	233,567	-	-	-	8,555	242,122
Construction	-	80,698	-	61,505	-	142,203
Legal settlement	-	-	1,968,267	-	-	1,968,267
Total	\$ 2,654,168	\$ 125,911	\$ 1,988,913	\$ 61,977	\$ 109,721	\$ 4,940,690

NOTE 7 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	\$ 12,941
State categorical aid	38,094
Total	\$ 51,035

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$3,975,000 of Tax Revenue Anticipation Notes dated February 20, 2013, through the California School Cash Reserve Program Authority. The notes mature on October 1, 2013, with an interest rate of 0.372 percent. The notes were sold to supplement cash flow. Repayments terms stipulate that 100 percent of principal and interest are due on the account to a designated fiscal agent by the notes' maturity date. As of June 30, 2014, the District has defeased the debt.

The District issued \$1,825,000 of Tax Revenue Anticipation Notes dated February 22, 2014, through the California School Cash Reserve Program Authority. The notes mature on October 1, 2014, with an interest rate of 0.284 percent. The notes were sold to supplement cash flow. Repayments terms stipulate that 100 percent of principal and interest are due on the account to a designated fiscal agent by the notes' maturity date. As of June 30, 2014, the District had an outstanding Tax and Revenue Anticipate Note in the amount of \$1,825,000.

RIO ELEMENTARY SCHOOL DISTRICT

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

Change in the outstanding liability for the Tax and Revenue Anticipation Notes is as follows:

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2014</u>
2/20/2013	0.372%	10/1/2013	\$ 3,474,000	\$ -	\$ 3,474,000	\$ -
2/25/2014	0.284%	10/1/2014	-	1,825,000	-	1,825,000
			<u>\$ 3,474,000</u>	<u>\$ 1,825,000</u>	<u>\$ 3,474,000</u>	<u>\$ 1,825,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Certificates of Participation are made by the Capital Facilities Fund. Payments for the lease purchase agreement are made by the General Fund. Capital leases are paid by the General Fund, the Cafeteria Fund, and the Capital Facilities Fund. The accrued vacation is paid by the fund for which the employee worked. Supplemental retirement payments are paid by the General Fund. The legal settlement and litigation is paid by the General Fund. Other postemployment benefits are paid by the General Fund.

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>	<u>Due in One Year</u>
General obligation bonds	\$ 14,675,000	\$ -	\$ 635,000	\$ 14,040,000	\$ 680,000
General obligation bonds premium on issuance	552,816	-	32,518	520,298	-
Certificates of participation	7,420,000	-	275,000	7,145,000	285,000
Certificates of participation premium on issuance	41,871	-	2,204	39,667	-
Lease purchase agreement	3,295,219	-	340,046	2,955,173	360,041
Capital leases	14,501	34,064	19,686	28,879	6,346
Accumulated vacation	213,096	48,300	-	261,396	-
Supplemental retirement payments	102,000	4,000	-	106,000	-
Legal settlement	93,787	-	15,631	78,156	15,631
Litigation	9,293,417	1,706,583	-	11,000,000	-
Other postemployment benefits	3,100,433	1,778,052	576,417	4,302,068	-
Total	<u>\$ 38,802,140</u>	<u>\$ 3,570,999</u>	<u>\$ 1,896,502</u>	<u>\$ 40,476,637</u>	<u>\$ 1,347,018</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
				Outstanding July 1, 2013	Redeemed	Outstanding June 30, 2014
5/2/2007	8/1/2029	3.570-5.000%	\$ 16,396,187	\$ 14,675,000	\$ 635,000	\$ 14,040,000

On May 2, 2007, the District issued the 2007 General Obligation Refunding Bonds (the Refunding Bonds) in the amount of \$16,396,187, to refund the portions of the 1997 General Obligation Bonds, Series A, B, and C (the Refunded Bonds), as noted above. The Refunding Bonds were issued as both current interest (\$15,690,000) and capital appreciation bonds (\$706,187), with the value of the capital appreciation bonds accreting \$263,813, with an aggregate principal debt service balance of \$970,000. The District received net proceeds of \$16,880,288 (including premium of \$780,442 and after payment of \$296,341 in underwriter fees, insurance, and other issuance costs). At June 30, 2014, Refunding Bonds in the amount of \$14,040,000, including accreted interest, were outstanding. The unamortized premium was \$520,298 at June 30, 2014. The proceeds of the Refunding Bonds were deposited in an escrow fund to pay the debt service on the Refunding Bonds due on August 1, 2007, and the redemption prices of the Refunded Bonds on the optional redemption date for the Refunded Bonds on August 1, 2007.

Debt Service Requirements to Maturity

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 680,000	\$ 635,706	\$ 1,315,706
2016	715,000	600,831	1,315,831
2017	745,000	564,331	1,309,331
2018	785,000	526,082	1,311,082
2019	815,000	486,082	1,301,082
2020-2024	4,685,000	1,833,667	6,518,667
2025-2029	4,965,000	772,645	5,737,645
2030	650,000	16,250	666,250
Total	\$ 14,040,000	\$ 5,435,594	\$ 19,475,594

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Certificates of Participation - 2007 Financing Project

On March 14, 2007, the District, under the California School Boards Association Financing Corporation, issued \$8,335,000 in Certificates of Participation. The Certificates mature March 1, 2032, and bear interest rates from 3.5 to 5.5 percent. The District received net proceeds of \$8,102,541 (including premium of \$57,299 and after payment of \$289,758 in underwriter fees and other issuance costs). A portion of the proceeds, \$1,305,000, was used to prepay the District's Capital Appreciation Certificates of Participation. The remainder is being used to finance costs associated with the completion of the construction of Rio Rosales Elementary School and other District facilities, to fund the Debt Service Reserve Fund, and to pay the costs related to the issuance of the Certificates of participation. A balance of \$7,145,000 remains outstanding at June 30, 2014.

The certificates mature through September 1, 2032, as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 285,000	\$ 304,732	\$ 589,732
2016	295,000	293,332	588,332
2017	310,000	277,108	587,108
2018	330,000	260,058	590,058
2019	340,000	247,682	587,682
2020-2024	1,915,000	1,022,716	2,937,716
2025-2029	2,335,000	593,910	2,928,910
2030-2033	1,335,000	116,530	1,451,530
Total	<u>\$ 7,145,000</u>	<u>\$ 3,116,068</u>	<u>\$ 10,261,068</u>

Lease Purchase Agreement

The District has entered into a lease agreement for the purchase of its District Office. The lease is divided into two parts. The tax-exempt part is for the portion of the building that the District occupies. The initial balance on this lease was \$3,975,193 and it bears interest at 4.35 percent. The other is for the portion of the building that the District leases out. The initial balance on this lease was \$2,025,000, and it bears interest at 6.64 percent. Both parts of the lease are scheduled to be paid in full by October 1, 2020. The remaining balance at June 30, 2014, is \$2,955,173.

RIO ELEMENTARY SCHOOL DISTRICT

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

The lease payments are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 360,041	\$ 143,125	\$ 503,166
2016	380,036	124,227	504,263
2017	400,031	104,289	504,320
2018	420,026	83,252	503,278
2019	44,020	61,173	105,193
2020-2021	955,019	50,830	1,005,849
Total	<u>\$ 2,559,173</u>	<u>\$ 566,896</u>	<u>\$ 3,126,069</u>

Capital Leases

The District has entered into an agreement to lease a dump truck. Such an agreement is, in substance, a purchase (capital lease) and is reported as a capital lease obligation. The District's liability on the lease agreement with an option to purchase is summarized below:

Balance, July 1, 2013	\$ 15,326
Additions	38,816
Payments	(21,795)
Balance, June 30, 2014	<u>\$ 32,347</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 7,763
2016	7,763
2017	7,763
2018	7,763
2019	1,295
Total	32,347
Less: Amount Representing Interest	(3,468)
Present Value of Minimum Lease Payments	<u>\$ 28,879</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$261,396.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Supplemental Retirement Payments

For all employees hired prior to July 1, 1992, the District will provide family medical, dental, and vision from retirement until age 65 if the employee has completed a minimum of 15 years with the District. The District will also provide the employee with supplemental retirement payments for every year of service with the District upon retirement. Employees have the option of receiving a lump-sum payment or payments in installments. As of June 30, 2014, there were a total of four employees eligible to receive the supplemental retirement payments. The current outstanding liability to the District is \$106,000.

Legal Settlement

During the 2005-2006 fiscal year, the District reached a settlement agreement with the former superintendent. The original agreement stipulated that the District will make five annual payments to the former superintendent and two annual payments for attorney fees. The total liability to the District was \$1,484,540, including accrued interest. Since the original agreement, the District renegotiated the terms of the settlement numerous times to allow financial flexibility. During the 2013-2014 fiscal year, the District has renegotiated the terms of the settlement in accordance to the following schedule:

<u>Fiscal Year</u>	<u>Total</u>
2015	\$ 15,631
2016	15,631
2017	15,631
2018	15,631
2019	15,632
Total	<u>\$ 78,156</u>

Litigation

The District was a defendant in a lawsuit brought by a general contractor company (the contractor) which was retained by the District to construct a school. The contractor filed a suit for breach of contract for unpaid retention, work outside the contract, delay, disruption, and related damages. The District filed a separate action for violation of the California False Claims Act. However, during the prior and current fiscal years the court issued a ruling in favor of the contractor and awarded them an amount of \$5,443,417, plus an estimated \$3,850,000 for opposing counsel fees and an estimated \$1,706,583 in penalties and interest. The District has accrued a liability for this amount, but intends to aggressively defend itself against the lawsuit. The court of appeals has heard the District's appeal of this case and is expected to issue a decision by January 2015.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$1,833,333, and contributions made by the District during the year were \$576,417. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$124,017 and (\$179,298), respectively, which resulted in an increase to the net OPEB obligation of \$1,201,635. As of June 30, 2014, the net OPEB obligation was \$4,302,068. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - COMMUNITY FACILITIES DISTRICT BONDS (NON-OBLIGATORY DEBT)

These bonds are authorized to the Mello-Roos Community Facilities Act of 1982 as amended, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the Community Facilities District. Neither the faith and credit nor taxing power of the Rio Elementary School 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 Rio Elementary School District has no duty to pay the delinquency out of any available funds of the District. The Rio Elementary School District acts solely as an agent for those paying taxes levied and the bondholders. The Rio Elementary School District Community Facilities District No. 1 Special Tax Bonds, Series 2005, and Series 2013 have remaining balances as of June 30, 2014, of \$56,880,000.

RIO ELEMENTARY SCHOOL DISTRICT

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

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Component Unit Fund
Nonspendable				
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -
Stores inventories	45,512	-	-	-
Prepaid expenditures	8,265	-	-	-
Total Nonspendable	<u>58,777</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted				
Legally restricted	829,115	-	-	-
Capital projects	-	1,537,761	895,862	1,430,314
Debt services	-	-	-	-
Total Restricted	<u>829,115</u>	<u>1,537,761</u>	<u>895,862</u>	<u>1,430,314</u>
Assigned				
Postemployment benefits	3,697,096	-	-	-
Deferred maintenance	12,939	-	-	-
Capital projects	-	-	-	-
Total Assigned	<u>3,710,035</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned				
uncertainties	1,207,280	-	-	-
Remaining unassigned	576,589	-	-	-
Total Unassigned	<u>1,783,869</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,381,796</u>	<u>\$ 1,537,761</u>	<u>\$ 895,862</u>	<u>\$ 1,430,314</u>

Non-Major Governmental	
Funds	Total
\$ -	\$ 5,000
14,480	59,992
-	8,265
<u>14,480</u>	<u>73,257</u>
74,316	903,431
-	3,863,937
<u>1,289,570</u>	<u>1,289,570</u>
<u>1,363,886</u>	<u>6,056,938</u>
-	3,697,096
-	12,939
<u>46,562</u>	<u>46,562</u>
<u>46,562</u>	<u>3,756,597</u>
-	1,207,280
-	576,589
-	1,783,869
<u>\$ 1,424,928</u>	<u>\$ 11,670,661</u>

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Plan Description

The Plan is a single-employer defined benefit health care plan administered by the Rio Elementary School District. The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service for certificated and management employees hired prior to July 1, 1997, and classified employees hired prior to July 1, 1998. Twenty years of service are required for all other employees. The District contributes from 50 percent to 100 percent of the amount of premiums incurred by retirees and their dependents depending on employment classification, hire date, and years of service at retirement. Membership of the Plan consists of 41 retirees and beneficiaries currently receiving benefits; one terminated Plan member entitled to, but not yet receiving benefits and 302 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 (RTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013-2014, the District contributed \$576,417 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 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	\$ 1,833,333
Interest on net OPEB obligation	124,017
Adjustment to annual required contribution	<u>(179,298)</u>
Annual OPEB cost (expense)	1,778,052
Contributions made	<u>(576,417)</u>
Increase in net OPEB obligation	1,201,635
Net OPEB obligation, beginning of year	<u>3,100,433</u>
Net OPEB obligation, end of year	<u>\$ 4,302,068</u>

RIO ELEMENTARY SCHOOL DISTRICT

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

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
2012	\$ 1,472,023	\$ 759,160	52%	\$ 2,345,695
2013	1,461,293	706,555	48%	3,100,433
2014	1,778,052	576,417	32%	4,302,068

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2013	\$ -	\$ 22,741,315	\$ 22,741,315	0%	\$ 22,221,274	102%

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 July 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 five percent to an ultimate rate of eight percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2014, was 25 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - RISK MANAGEMENT

Description

The Rio Elementary School District's risk management activities are recorded in the General Fund. Employee health programs are administered by the General Fund through payments made to Self-Insured Schools of California (SISC), a public entity risk pool. The District also participates in the Ventura County Schools Self-Funding Authority public entity risk pool for the workers' compensation, property, and liability programs. Refer to Note 16 for additional information regarding the 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.

Employee Medical Benefits

The District has contracted with the SISC to provide employee health benefits. SISC is a shared risk pool comprised of numerous members in California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating entities. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$1,336,735, \$1,201,686, and \$1,176,457, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$593,083, \$529,085, and \$496,362, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan.

District and employee contributions are determined by statute.

RIO ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 \$790,148 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS.). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget 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, 2014.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending may have a material adverse effect on the overall financial position of the District at June 30, 2014. See also Note 9, regarding litigation.

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Ventura County Schools Self-Funding Authority (VCSSFA) and the Self-Insured Schools of California (SISC) public entity risk pools and the Ventura County Fast Action School Transit Authority (VCFAST) a joint powers authority (JPA). The District pays an annual premium to VCSSFA and CSEBO for its workers' compensation and property liability coverage, and health benefits, respectively. Payments for courier services are paid to the VCFAST. The relationships between the District, the pools, and the JPA 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 available from the respective entities.

During the year ended June 30, 2014, the District made payments of \$789,970, \$4,873,020, and \$4,108, to VCSSFA, SISC, and VCFAST, respectively, for services received.

REQUIRED SUPPLEMENTARY INFORMATION

RIO ELEMENTARY SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 23,668,106	\$ 29,684,383	\$ 29,968,752	\$ 284,369
Federal sources	2,185,985	2,304,955	2,128,106	(176,849)
Other State sources	5,985,848	3,022,457	3,882,554	860,097
Other local sources	3,155,495	3,193,505	3,171,707	(21,798)
Total Revenues ¹	34,995,434	38,205,300	39,151,119	945,819
EXPENDITURES				
Current				
Certificated salaries	15,108,959	16,419,379	16,846,217	(426,838)
Classified salaries	3,817,198	4,318,702	4,508,430	(189,728)
Employee benefits	8,665,027	8,922,770	9,504,777	(582,007)
Books and supplies	1,673,323	2,979,971	2,392,692	587,279
Services and operating expenditures	5,440,199	6,048,983	5,397,919	651,064
Other outgo	1,310,451	1,387,707	1,596,105	(208,398)
Capital outlay	10,000	85,014	146,938	(61,924)
Debt service - principal	136,018	150,520	150,520	-
Debt service - interest	64,393	64,393	108,464	(44,071)
Total Expenditures ¹	36,225,568	40,377,439	40,652,062	(274,623)
Excess (Deficiency) of Revenues Over Expenditures	(1,230,134)	(2,172,139)	(1,500,943)	671,196
Other Financing Sources (Uses)				
Transfers in	1,451,500	1,051,500	-	(1,051,500)
Transfers out	(587,358)	(589,358)	(589,358)	-
Net Financing Sources (Uses)	864,142	462,142	(589,358)	(1,051,500)
NET CHANGE IN FUND BALANCE	(365,992)	(1,709,997)	(2,090,301)	(380,304)
Fund Balance - Beginning	8,472,097	8,472,097	8,472,097	-
Fund Balance - Ending	\$ 8,106,105	\$ 6,762,100	\$ 6,381,796	\$ (380,304)

¹ On behalf payments of \$790,148 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, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

RIO ELEMENTARY SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2009	\$ -	\$ 14,905,016	\$ 14,905,016	0%	\$ 19,307,432	77%
July 1, 2011	-	16,637,914	16,637,914	0%	19,796,975	84%
July 1, 2013		22,741,315	22,741,315	0%	22,221,274	102%

SUPPLEMENTARY INFORMATION

RIO ELEMENTARY SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education			
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected Migrant Education Program	84.010	14329	\$ 667,683
Title I, Part C - Migrant Education Regular	84.011	14326	166,894
Title I, Part C - Migrant Education Summer	84.011	10005	37,526
Title I, Part C - Even Start Migrant Education	84.011	14768	25,000
Subtotal Migrant Education Program			<u>229,420</u>
Title II, Part A - Improving Teacher Quality	84.367	14341	136,204
Title III, Part A - Limited English Proficient Student Program	84.365	14346	203,449
Passed through Ventura County Office of Education SELPA			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	734,528
Preschool Grant, Part B	84.173	13430	28,314
Preschool Local Entitlement	84.027A	13682	52,107
Subtotal Special Education (IDEA) Cluster			<u>814,949</u>
Total U.S. Department of Education			<u>2,051,705</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	<u>38,002</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	1,586,303
Meal Supplements	10.555	13396	23,209
Especially Needy Breakfast Program	10.553	13390	362,141
Commodities	10.555	13396	220,083
Summer Food Service Program	10.559	13004	101,548
Subtotal Child Nutrition Cluster			<u>2,293,284</u>
Child and Adult Care Food Program	10.558	13393	<u>548,748</u>
Total U.S. Department of Agriculture			<u>2,842,032</u>
Total Federal Programs			<u>\$ 4,931,739</u>

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

The Rio Elementary School District was established in 1885 and consists of an area comprising approximately 40 square miles. The District operates six elementary schools and two middle schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ramon Rodriguez	President	2014
Matt Klinefelter	Clerk	2016
Henrietta Macias	Member	2014
Celia Robles	Member	2016
Eleanor Torres	Member	2014

ADMINISTRATION

Dr. John Puglisi	Superintendent
Jeff Turner	Assistant Superintendent, Educational Services
Kristen Pifko	Assistant Superintendent, Business Services

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,213.25	2,214.47
Fourth through sixth	1,489.43	1,488.15
Seventh and eighth	948.67	948.17
Total Regular ADA	<u>4,651.35</u>	<u>4,650.79</u>
Extended Year Special Education		
Transitional kindergarten through third	2.31	2.31
Fourth through sixth	1.58	1.58
Seventh and eighth	0.33	0.33
Total Extended Year Special Education	<u>4.22</u>	<u>4.22</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	-	0.22
Fourth through sixth	1.05	1.07
Seventh and eighth	1.37	1.79
Total Special Education, Nonpublic, Nonsectarian Schools	<u>2.42</u>	<u>3.08</u>
Total ADA	<u><u>4,657.99</u></u>	<u><u>4,658.09</u></u>

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

Grade Level	1986-87	Reduced	2013-14	Number of Days		Status
	Minutes	1986-87	Actual	Traditional	Multitrack	
	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	36,000	35,000	40,680	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			52,362	180	-	Complied
Grade 2			52,362	180	-	Complied
Grade 3			52,362	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			55,674	180	-	Complied
Grade 5			55,674	180	-	Complied
Grade 6			62,419	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			62,419	180	-	Complied
Grade 8			62,419	180	-	Complied

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND ⁴				
Revenues	\$ 41,161,383	\$ 39,051,786	\$ 34,809,669	\$ 35,241,237
Other sources and transfers in	1,051,500	1,052,901	1,049,556	84,462
Total Revenues and Other Sources	42,212,883	40,104,687	35,859,225	35,325,699
Expenditures	40,696,931	40,512,233	35,348,830	34,665,184
Other uses and transfers out	589,733	587,357	587,358	586,105
Total Expenditures and Other Uses	41,286,664	41,099,590	35,936,188	35,251,289
INCREASE (DECREASE) IN FUND BALANCE	\$ 926,219	\$ (994,903)	\$ (76,963)	\$ 74,410
ENDING FUND BALANCE	\$ 3,599,980	\$ 2,673,761	\$ 3,668,664	\$ 3,745,627
AVAILABLE RESERVES ²	\$ 2,738,865	\$ 1,783,869	\$ 2,812,849	\$ 2,771,169
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.63%	4.43%	7.99%	8.03%
LONG-TERM OBLIGATIONS	N/A	\$ 40,476,637	\$ 38,802,140	\$ 39,387,849
K-12 AVERAGE DAILY ATTENDANCE AT P-2	4,674	4,658	4,537	4,480

The General Fund balance has decreased by \$1,071,866 over the past two years. The fiscal year 2014-2015 budget projects an increase of \$926,219 (34.6 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 deficits in two of the past three years but anticipates incurring an operating surplus during the 2014-2015 fiscal year. Total long-term obligations have increased by \$1,088,788 over the past two years.

Average daily attendance has increased by 178 over the past two years. Additional growth of 16 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$790,148, \$735,141, and \$733,208, has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013, and 2012, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund, and the Special Reserve Fund for Postemployment Benefits, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Deposits and investments	\$ 67,438	\$ 46,562	\$ 1,289,036	\$ 1,403,036
Receivables	546,607	-	534	547,141
Due from other funds	38,668	-	-	38,668
Stores inventories	14,480	-	-	14,480
Total Assets	<u>\$ 667,193</u>	<u>\$ 46,562</u>	<u>\$ 1,289,570</u>	<u>\$ 2,003,325</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 109,721	\$ -	\$ -	\$ 109,721
Due to other funds	468,676	-	-	468,676
Total Liabilities	<u>578,397</u>	<u>-</u>	<u>-</u>	<u>578,397</u>
Fund Balances:				
Nonspendable	14,480	-	-	14,480
Restricted	74,316	-	1,289,570	1,363,886
Assigned	-	46,562	-	46,562
Total Fund Balances	<u>88,796</u>	<u>46,562</u>	<u>1,289,570</u>	<u>1,424,928</u>
Total Liabilities and Fund Balances	<u>\$ 667,193</u>	<u>\$ 46,562</u>	<u>\$ 1,289,570</u>	<u>\$ 2,003,325</u>

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

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

	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES				
Federal sources	\$ 2,842,032	\$ -	\$ -	\$ 2,842,032
Other State sources	179,669	-	8,088	187,757
Other local sources	176,279	35,474	1,394,258	1,606,011
Total Revenues	<u>3,197,980</u>	<u>35,474</u>	<u>1,402,346</u>	<u>4,635,800</u>
EXPENDITURES				
Current				
Pupil services:				
Food services	3,290,076	-	-	3,290,076
Administration:				
All other administration	112,000	-	-	112,000
Facility acquisition and construction	205,171	91	-	205,262
Debt service				
Principal	5,185	-	635,000	640,185
Interest and other	1,284	-	668,581	669,865
Total Expenditures	<u>3,613,716</u>	<u>91</u>	<u>1,303,581</u>	<u>4,917,388</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(415,736)</u>	<u>35,383</u>	<u>98,765</u>	<u>(281,588)</u>
Other Financing Sources				
Other sources - capital lease	34,064	-	-	34,064
NET CHANGE IN FUND BALANCES	(381,672)	35,383	98,765	(247,524)
Fund Balances - Beginning	470,468	11,179	1,190,805	1,672,452
Fund Balances - Ending	<u>\$ 88,796</u>	<u>\$ 46,562</u>	<u>\$ 1,289,570</u>	<u>\$ 1,424,928</u>

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

(Amounts in thousands)

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 2,128	5.5	\$ 2,073	6.0	\$ 2,860	8.1
State and local revenue included in Local Control Funding Formula	29,969	76.7	23,897	68.6	22,954	65.2
Other State revenue	3,883	9.9	5,761	16.6	6,077	17.2
Other local revenue	3,072	7.9	3,078	8.8	3,350	9.5
Total Revenues	39,052	100.0	34,809	100.0	35,241	100.0
EXPENDITURES						
Salaries and benefits						
Certificated salaries	16,846	43.2	15,190	43.6	15,153	43.0
Classified salaries	4,508	11.5	3,991	11.5	3,967	11.3
Employee benefits	9,506	24.3	9,022	25.9	8,903	25.2
Total Salaries and Benefits	30,860	79.0	28,203	81.0	28,023	79.5
Books and supplies	2,393	6.1	1,068	3.0	1,010	2.8
Contracts and operating expenses	5,258	13.5	4,666	13.4	4,437	12.6
Capital outlay	147	0.4	33	0.1	2	0.0
Other outgo	1,639	4.2	1,356	3.9	991	2.8
Debt service	216	0.6	23	0.1	201	0.6
Total Expenditures	40,513	103.8	35,349	101.5	34,664	98.3
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,461)	(3.8)	(540)	(1.5)	577	1.7
OTHER FINANCING SOURCES (USES)						
Incoming transfers (Other sources)	1,053	2.7	1,050	3.0	84	0.2
Outgoing transfers (Other uses)	(589)	(1.5)	(587)	(1.7)	(586)	(1.6)
Total Other Sources (Uses)	464	1.2	463	1.3	(502)	(1.4)
INCREASE (DECREASE) IN FUND BALANCE	(997)	(2.6)	(77)	(0.2)	75	0.3
FUND BALANCE, BEGINNING	3,669		3,746		3,671	
FUND BALANCE, ENDING	<u>\$ 2,672</u>		<u>\$ 3,669</u>		<u>\$ 3,746</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		6.8		10.5		10.6

See accompanying note to supplementary information.

RIO ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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 primarily of Medi-Cal Billing Option Funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 4,970,138
Medi-Cal Billing Option	93.778	<u>(38,399)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,931,739</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 the 1986-87 requirements, as required by *Education Code* Section 46201.

RIO ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

General Fund Selected Financial Information

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Rio Elementary School District
Oxnard, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rio Elementary School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Rio Elementary School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of financial statement findings as item 2014-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rio Elementary 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 Rio Elementary School District in a separate letter dated December 15, 2014.

Rio Elementary School District's Response to Findings

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

Purpose of This Report

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

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 15, 2014



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

Governing Board
Rio Elementary School District
Oxnard, California

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

In our opinion, Rio Elementary School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Rio Elementary 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 Rio Elementary 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 Rio Elementary 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.

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 15, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Rio Elementary School District
Oxnard, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Rio Elementary School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Rio Elementary 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 Rio Elementary School District's compliance with those requirements.

Basis for Qualified Opinion for the After School Education and Safety Program

As described in the accompanying schedule of findings and questioned costs, Rio Elementary School District did not comply with requirements regarding the After School Education and Safety Program as item 2014-002. Compliance with such requirements is necessary, in our opinion, for Rio Elementary School District to comply with the requirements applicable to that program.

Qualified Opinion for the After School Education and Safety Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Rio Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Programs

In our opinion, Rio Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, See Below
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, See Below
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for Independent Study because it was below the materiality threshold required for testing. Additionally we did not perform testing for the California Clean Energy Jobs Act because no expenditures were noted in the current year for the funds that were received.

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RIO ELEMENTARY SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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>84.027, 84.027A and 84.173</u>	<u>Special Education (IDEA) Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program</u>

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

STATE AWARDS

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

<u>Name of Program</u>
<u>After School Education and Safety</u>

RIO ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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

	<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
	30000	Internal Control
2014-001	30000	

Criteria or Specific Requirements

Consistent with the Criteria and Standards for fiscal solvency adopted by the State Board of Education, it is recommended that the District maintain a Reserve for Economic Uncertainties to safeguard the District's financial stability. The minimum recommended reserve for a District of this size is a minimum of three percent of budgeted general fund expenditures and other financing uses. The District's policy is to maintain the reserve at three percent. If a fund balance drops below three percent, it shall be recovered at a rate of one percent (1%) minimally, each year.

Condition

The Schedule of Financial Trends on page 61 indicates that the District's available reserves in the General Fund for the year ended June 30, 2014, has decreased by approximately \$1 million. In addition, as indicated on page 44, the District has incurred a cumulative liability relating to litigation of approximately \$11 million. The District intends to appeal the court ruling. However, if the appeal is unsuccessful, the General fund balance would not be sufficient to pay the resulting liability.

Questioned Costs

There are no questioned costs associated with the condition identified.

Context

The condition was identified as a result of the evaluation of outstanding legal matters and their impact on the District's financial position and also through an analysis of current fiscal conditions impacting the District.

Effect

The effect of the condition may potentially lead the District to financial hardship which can result in fiscal insolvency.

RIO ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Cause

It appears that the condition materialized due to recent economic declines which resulted in a decrease in State funding and unanticipated litigation losses of \$11.0 million dollars.

Recommendation

We recommend that the District closely monitor its budget in the next year fiscal year and beyond to insure that fiscal solvency is maintained. This should include efforts to reduce expenditures and maximize revenues to the greatest extent possible.

Corrective Action Plan

The District staff will closely monitor the budget for the current fiscal year, and for at least two additional years to ensure that a satisfactory fund balance reserve is maintained. Additionally, the District has appealed the lower court ruling.

RIO ELEMENTARY SCHOOL DISTRICT

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

None reported.

RIO ELEMENTARY SCHOOL DISTRICT

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

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

	<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
	40000	State Compliance
2014-002	40000	

After School Education and Safety Program – Attendance and Reporting

Criteria or Specific Requirements

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

Condition

There appear to be instances in which students' departure times were not recorded on attendance sign out forms. The District's policy states that student sign outs require a signature and a departure time. However, during review of Rio Plaza Elementary School's sign out sheets, it was noted that there were 20 instances in which the student's departure time was not documented. Without sign out times, school sites cannot make a determination about a student's minimum weekly participation in after school programs. In addition, there were no signatures included on the sign out sheets for five students and there was one instance in which attendance was not summed correctly on the site's attendance roster. The aforementioned discrepancies amounted to a total of 26 students who were not properly signed out.

Questioned Costs

There are no questioned costs.

RIO ELEMENTARY SCHOOL DISTRICT

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

Context

The condition identified was determined through review of attendance records from two of the eight sites that operate an after school program. Attendance forms were reviewed for each child's sign out time in order to determine daily participation. The auditor selected two schools for the first semi-annual reporting period dated August to December 2013. The auditor reviewed attendance sheets for the month of October 2013, and noted exceptions in which Rio Plaza Elementary School did not have the appropriate written documentation to verify students were present for the whole program day. Sign-in sheets were to be signed by a student's parent or marked by the teacher leading that activity. The sign-in sheets were not consistently signed off on by a student's parent or other responsible parties and there were instances in which the student's departure time was not noted.

Effect

As a result of our testing, the District does not appear to be in compliance with *Education Code* Section 8483(a)(1). There is not sufficient documentation to support whether or not students participated in the full day of the program. In addition, the attendance forms are not consistently being signed off on by parents or other responsible parties, per the districts after school program policy.

Cause

It appears that the condition identified has materialized as a result of the site not having adequate documentation to show that students were present for the whole program day. Additionally, it appears that review procedures are not stringent enough to identify the incomplete submission of attendance forms.

Recommendation

The District should strive to improve implemented procedures requiring site personnel to document on the attendance form the time that students are released from the after school program. In addition, sites should ensure that students are being signed out on the attendance form. Stricter review procedures should be implemented in order to identify attendance forms that have not been completed. The District should communicate to the sites the importance of following the established procedures to ensure compliance with program requirements.

Corrective Action Plan

The District staff has improved procedures requiring site personnel to document on the attendance from the time that students are released from the after school program. Additionally, the District has communicated to sites the importance of following the established procedures to ensure compliance with program requirements.

RIO ELEMENTARY SCHOOL DISTRICT

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

Summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

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

2013-1 30000

FISCAL SOLVENCY

Finding

Consistent with the Criteria and Standards for fiscal solvency adopted by the State Board of Education, it is recommended that the District maintain a Reserve for Economic Uncertainties to safeguard the District's financial stability. The minimum recommended reserve for a District of this size is a minimum of three percent of budgeted General Fund expenditures and other financing uses. The District's policy is to maintain the reserve at three percent. If a fund balance drops below three percent, it shall be recovered at a rate of one percent minimally, each year.

Although the Schedule of Financial Trends on page 61 indicates that the District has continued to increase its available reserves in the General Fund for the year ended June 30, 2013, by approximately \$41,000, the District is projecting its available reserves as a percentage of total outgo as of June 30, 2014, to be approximately 89 percent of the available reserve reported for the year ended June 30, 2013. In addition, as indicated on page 45, the District has incurred a cumulative liability relating to litigation of approximately \$9.3 million. The District intends to appeal the court ruling; however, if the appeal is unsuccessful, the General fund balance would not be sufficient to pay the resulting liability.

Recommendation

We recommend that the District closely monitor its budget in the next year fiscal year and beyond to insure that fiscal solvency is maintained. This should include efforts to reduce expenditures and maximize revenues to the greatest extent possible.

Current Status

Not implemented. See finding 2014-001.

RIO ELEMENTARY SCHOOL DISTRICT

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

2013-2 30000

MODIFIED ACCRUAL ACCOUNTING OF REVENUES AND EXPENDITURES

Findings

Under the modified basis of accounting used for governmental funds, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when a liability is incurred, regardless of when the receipt or payment of cash takes place. School District's operating in the State of California use the modified accrual basis of accounting in governmental funds.

During the District's year-end closing process, the District excluded multiple accrual items pertaining to revenues that should have been recognized as well as included items that should not have been recognized as of June 30, 2013.

Recommendation

In light of the condition identified, the District should exercise care during its annual year-end closing process. The District should implement the following to prevent similar future occurrences:

- 1) Properly identify awarded amounts for various categorical programs. Accounting of revenues must coincide directly with amounts awarded to the District in a given fiscal year.
- 2) Review program budgets during year-end closing process to monitor obvious errors. Program budgets are generally established using award letters provided to the District by various State and Federal agencies. Using these award letters, revenue budgets are established to monitor program activities. Actual results and budgeted projections should be compared at year-end.

Current Status

Implemented.



Governing Board
Rio Elementary School District
Oxnard, California

In planning and performing our audit of the basic financial statements of Rio Elementary School District for the year ending June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 15, 2014, on the basic financial statements of Rio Elementary School District.

INTERNAL CONTROLS

Disbursements

Observation

Based on our review of the District's disbursements procedures, we noted that the Account Clerk II, the individual responsible for paying vendors after receiving the invoices and matching them with the purchase orders, also has access and ability to create vendors. This access increases the risk of having fictitious vendors in the system and, therefore, potentially allowing the account clerk to make payments to those vendors.

Recommendation

It is highly recommended that the Account Clerk II, who processes payments to vendors, should not be granted access and ability to create vendors. If implemented by the District, access control to the system decreases the risk of having fictitious vendors being created and the risk of making payments to them. Access and the ability to create vendors should only be given to an employee that is completely independent of accounts payable function and has no access to the accounts payable module.

ASSOCIATED STUDENT BODY (ASB)

Rio Vista Middle School

Cash Receipts

Observation

The following observations were made during our review of ASB procedures:

1. Pre-numbered receipts are not being used consistently for cash received. Out of 32 sample cash deposits reviewed, only 13 had an associated pre-numbered receipt. In addition, deposits are not being made in a timely manner. Out of 32 sample deposits reviewed, nine were not deposited within five days.
2. Out of 13 sample disbursements reviewed, one did not have supporting documentation present. The disbursement amounted to \$2,110 and had no supporting purchase request form or expenditure pre-approval.
3. A ticket roll was not available for our review and observation. There was no ticket control log to document beginning and ending ticket numbers for ticketed events.
4. The student store does not create a sales report for items sold within the store. Receipts are not issued for cash received within the store and perpetual inventory records are not maintained.

Recommendation

1. All cash should be documented with pre-numbered receipts or similar documents in order allow the reconciliation of cash collected. The use of pre-numbered receipts allows the ASB to ensure that all cash receipts have been properly accounted for. Additionally, collected cash should be deposited within first couple of days of receipt. This will minimize the risk associated with theft, loss, or misappropriation associated with cash collections being held by the ASB.
2. ASB should ensure that supporting documents are available prior to making disbursements. Lack of supporting generally causes alarm for potential misappropriation and/or questionable activities that may be outside of the scope of ASB operations
3. All events that require tickets should be documented using ticket rolls that are available to the ASB. In conjunction, master ticket logs should be utilized to document each of the event's ticket activities and to reconcile the physical ticket sequences. Upon the completion of any ticketed events, sales reconciliation should be performed to determine if actual cash collected is consistent with the number of tickets sold.
4. Student store transactions should be accounted for by performing simple sales reconciliation of inventory sold. Beginning inventory should be taken at the beginning of the day and an ending inventory at the end of the school day. Based on beginning and inventory numbers, ASB should develop and anticipated revenue and compare the amount to actual cash receipts.

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

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 15, 2014