COVINA-VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2014

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
Covina-Valley Unified School District
Covina, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covina-Valley Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 19 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 16 and budgetary comparison and other postemployment benefit information on pages 63 and 64, 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 Covina-Valley Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents, such as the introductory and statistical section 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 8, 2014, on our consideration of the Covina-Valley Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covina-Valley Unified School District's internal control over financial reporting and compliance.

VAVRINEK, TRINE, DAY + CO, LLP

Rancho Cucamonga, California
December 8, 2014

District Superintendent
Catherine J. Nichols, Ed.D.

Board of Education
Charles M. Kemp
William L. Knoll
Sue L. Maulucci
Darrell A. Myrick
Richard M. White

This section of Covina-Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

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

519 E. Badillo Street • Covina, California 91723
626.974.7000 • FAX 626.974.7039
www.cvusd.k12.ca.us

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

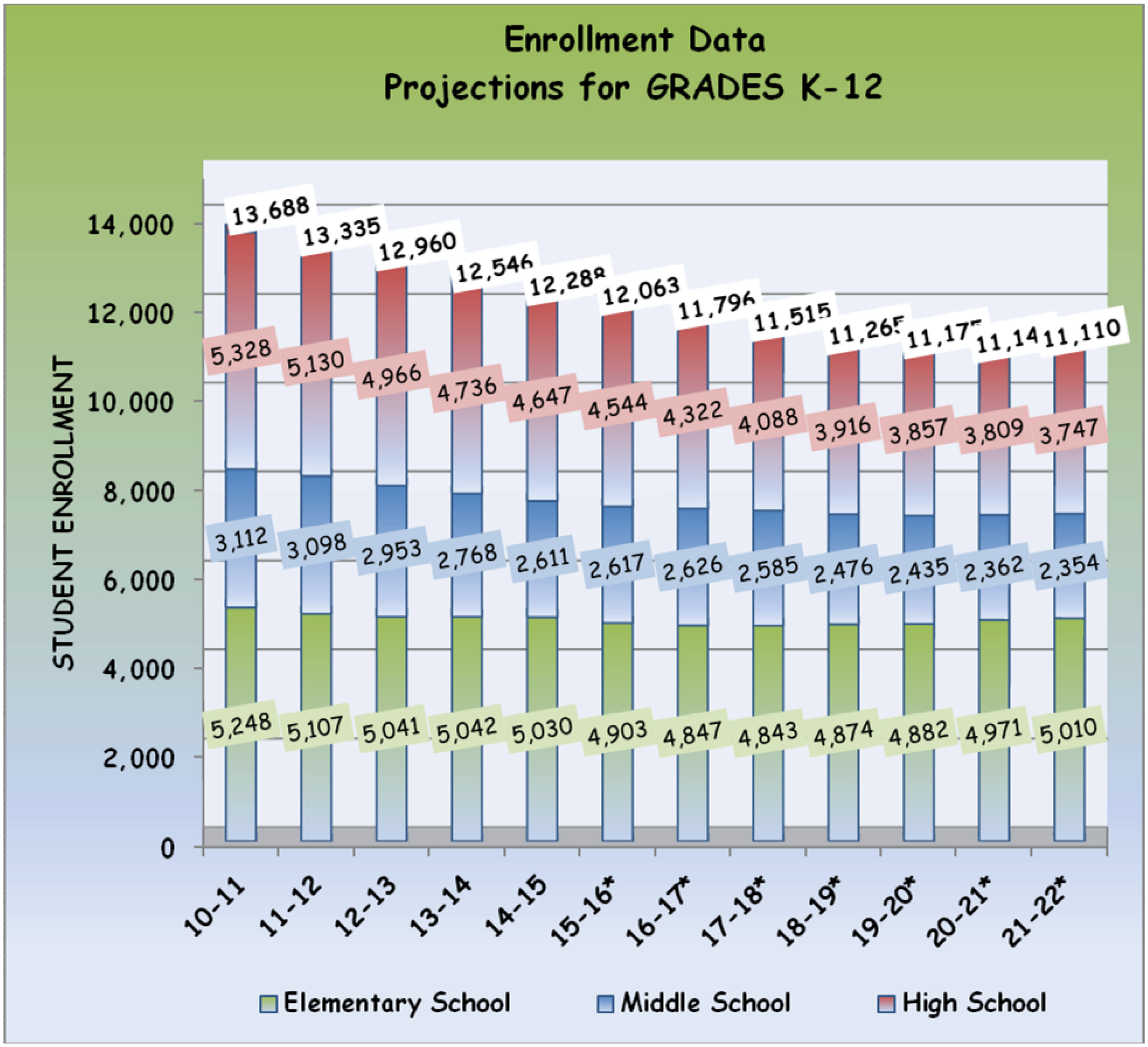
THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Fiduciary Funds - Statement of 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.

FINANCIAL HIGHLIGHTS

The Local Control Funding Formula (LCFF) was adopted in the 2013-2014 State Budget Act under Assembly Bill AB97. In 2013-2014, the LCFF Growth was 5.93 percent-the net growth was 3.98 percent due to 1.95 percent declining enrollment loss which equals to $1.45 million loss in revenue. Using the 2013-2014 as the base student enrollment, the district projected combining FYs 2014-2015, 2015-2016, 2016-2017-a potential loss of $13.2 million due to declining enrollment.



The District's limited resources were reevaluated and directed towards maintaining strong educational programs for students served by the District. Even with depleting resources, the District continues to realize strong gains in student test scores. Further discussions regarding the educational programs of the District are covered later in this report.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $15.0 million for the fiscal year ended June 30, 2014. Of this amount, ($11.7) million was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2014	2013, As Restated	2014	2013	2014	2013, As Restated
Assets						
Current and other assets	$ 90.9	$ 104.6	$ 0.3	$ 0.2	$ 91.2	$ 104.8
Capital assets	110.5	111.0	-	-	110.5	111.0
Total Assets	**201.4**	**215.6**	**0.3**	**0.2**	**201.7**	**215.8**
Liabilities						
Current liabilities	32.1	32.6	-	-	32.1	32.6
Long-term obligations	154.6	155.2	-	-	154.6	155.2
Total Liabilities	**186.7**	**187.8**	**-**	**-**	**186.7**	**187.8**
Net Position						
Net investment in capital assets	6.8	9.6	-	-	6.8	9.6
Restricted	19.6	16.7	0.3	0.2	19.9	16.9
Unrestricted	(11.7)	0.2	-	-	(11.7)	0.2
Total Net Position	**$ 14.7**	**$ 26.5**	**$ 0.3**	**$ 0.2**	**$ 15.0**	**$ 26.7**

The ($11.7) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

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 18. 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		Business Activities		School District Activities	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 3.5	$ 3.9	$ -	$ 1.1	$ 3.5	$ 5.0
Operating grants and contributions	25.6	29.9	-	1.2	25.6	31.1
Capital grants and contributions	-	(0.6)	-	-	-	(0.6)
General revenues:						
Federal and State aid not restricted	79.0	67.6	-	-	79.0	67.6
Property taxes	21.3	25.3	-	-	21.3	25.3
Other general revenues	6.4	3.3	2.9	3.2	9.3	6.5
Total Revenues	**135.8**	**129.4**	**2.9**	**5.5**	**138.7**	**134.9**
Expenses						
Instruction-related	93.8	90.6	-	-	93.8	90.6
Pupil services	13.4	11.5	-	-	13.4	11.5
Administration	9.9	10.2	-	-	9.9	10.2
Plant services	13.7	12.3	-	-	13.7	12.3
Other	16.8	14.4	2.8	5.3	19.6	19.7
Total Expenses	**$ 147.6**	**$ 139.0**	**$ 2.8**	**$ 5.3**	**$ 150.4**	**$ 144.3**

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was $147.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $21.3 million because the cost was paid by those who benefited from the programs ($3.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($25.6 million). We paid for the remaining "public benefit" portion of our governmental activities with $85.4 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction-related, pupil services, administration, plant services, and all other costs. 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-related	$ 93.8	$ 90.6	$ 76.3	$ 69.1
Pupil services	13.4	11.5	6.1	3.3
Administration	9.9	10.2	8.8	9.3
Plant services	13.7	12.3	13.4	11.9
Other	16.8	14.4	13.9	12.2
Total	**$ 147.6**	**$ 139.0**	**$ 118.5**	**$ 105.8**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $56.5 million, which is a decrease of $9.3 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	$ 24.3	$ 119.8	$ 124.3	$ 19.8
Building Fund	30.8	0.2	5.9	25.1
Child Development Fund	0.1	1.6	1.7	-
Cafeteria Fund	4.8	6.4	5.9	5.3
Capital Facilities Fund	0.8	0.4	1.2	-
County School Facilities Fund	-	-	-	-
Special Reserve Fund for Capital Outlay Projects	-	-	-	-
Bond Interest and Redemption Fund	5.0	8.9	7.6	6.3
Total	**$ 65.8**	**$ 137.3**	**$ 146.6**	**$ 56.5**

The primary reasons for these increases and decreases are:

- As the District's principal operating funding, the General Fund, is comprised of unrestricted as well as restricted dollars. The General Fund is used to account for the ordinary operations of the District. All transactions except those accounted for in another funds are accounted for in this fund.

In accordance with GASB 54 requirements, the fund balance for the General Fund is inclusive of all financial activity recorded in the Adult Education Fund and the Deferred Maintenance Fund. In addition, the fund balance includes all the financial activity for the East San Gabriel SELPA. The District serves as the Administrative Unit for the SELPA and records all financial activity under a sub fund within the District's General Fund.

In total, the General Fund balance decreased by $4.5 million. A breakdown of the changes is shown on the table below:

Unrestricted General Fund	($6.6 million)
Restricted General Fund	$2.2 million
SELPA Reserve Fund	$0.5 million
Deferred Maintenance Fund	($0.6 million)

- The Building Fund is primarily utilized to account bond proceeds and record expenditures in accordance with bond language. The fund balance in the Building Fund is by $25.1 million.

- The Capital Facilities Fund is used primarily to account for monies received from fees levied on developers or other agencies. Expenditures are restricted to the purposes specified in Government Code or to the items specified in agreements with developers. The Capital Facilities Fund decreased by $.8 million due to expenditures incurred related to new construction projects.

- The Bond Interest and Redemption Fund are used for the repayment of bonds issued by the District. The Bond Interest and Redemption fund increased by $1.3 million primarily due to increase in tax collection.

- The Fund balances in the Child Development Fund, Cafeteria Fund, County School Facilities Fund and Special Reserve Fund for Capital Outlay Projects remained fairly stable from the prior year, showing a net increase of approximately $0.5 million.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (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 63.)

The anticipated ending balance for the General Fund was projected at $19.35 million, based on final budgetary revisions through June 30, 2014. Based on year-end totals, the ending fund balance was $19.24 million, a decrease of $0.11 million over earlier projections. The decrease in reserves is mainly attributed to under projected LCFF Revenues and over projected expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had $110.5 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of just under $0.5 million, or 0.5 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land and construction in progress	$ 13.8	$ 7.9	$ -	$ -	$ 13.8	$ 7.9
Buildings and improvements	95.0	100.9	-	-	95.0	100.9
Equipment	1.7	2.2	-	-	1.7	2.2
Total	**$ 110.5**	**$ 111.0**	**$ -**	**$ -**	**$ 110.5**	**$ 111.0**

This year's additions included capital lease agreements, building improvements and classroom equipment such as computers. No new debt was issued for these additions.

Several capital projects are planned for the 2014-2015 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $154.6 million in long-term obligations outstanding versus $155.2 million last year, a decrease of 0.4 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds - net (financed with property taxes)	$ 143.0	$ 146.1	$ -	$ -	$ 143.0	$ 146.1
Qualified academy zone bonds	3.6	3.9	-	-	3.6	3.9
Capitalized lease obligations	0.2	0.3	-	-	0.2	0.3
Compensated absences	1.3	1.5	-	-	1.3	1.5
Early retirement incentives	4.5	1.9	-	-	4.5	1.9
Other postemployment benefits	0.1	-	-	-	0.1	-
Claims liability	1.9	1.5	-	-	1.9	1.5
Total	**$ 154.6**	**$ 155.2**	**$ -**	**$ -**	**$ 154.6**	**$ 155.2**

The District's general obligation bond rating continues to be "Ad3." The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding net obligation debt of $143.0 million is significantly below statutorily-imposed limits.

Other obligations include compensated absences payable, other postemployment benefits and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

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

Accomplishments to support student learning during the 2013-2014 school year included professional development activities for teachers, administrators and classified staff to support the District's priorities to increase student achievement, close the achievement gap, and create a four-year college going culture. The primary goal for C-VUSD is to prepare all students for the 21st century and ensure college and career readiness. The District focused on its Theory of Action in which leadership and collaboration lead to innovation. A Common Core 21st Century Advisory Committee was utilized to bring District stakeholders together to refine the District's mission. Also implemented was a District Gold Standard that focused on academic competencies and habits of mind; college readiness course of study; engaging 21st century skills; connectedness; safe learning environment; highly qualified team; and uniform practices and decision-making.

Staff development focused on building expertise in Common Core curriculum development, Effective First Instruction, rigor and depth of knowledge. Administrators, teachers-leaders, and staff all received intensive training in essential learning. Implementation of revised deconstruction of standards, pacing, and benchmark development were communicated. K-12 teachers and administrators participated in training focused on the Common Core Standards and Smarter Balanced Assessments. All teachers continued implementation of the Common Core Standards and Smarter Balanced Assessments. Report cards and technology competencies were revised which led to alignment to 21st century skills and college readiness, integration of technology and K-12 rubrics for the 4C's. Thinking Maps and Write From the Beginning training was provided to administrators, and trainer-of-trainer at all schools. Implementation of the career tech academy, career pathways, certification programs, associate degrees and world language assisted to build a four-year college-going culture. Support structures, such as articulation, continue to build greater District-wide coherence. All teachers at Program Improvement schools utilized Guided Language Acquisition Design certification to better meet the needs of English Learners. In an effort to increase communication with all stakeholders, training was provided on Aeries parent portal to increase staff, parent and student access to grades and other pertinent information from home, thereby increasing communication between home and school. The District revamped the District and all site web pages to enhance access to important information.

The District continued to analyze data specific to subgroups and Program Improvement sites. Funds were used to continue to contract with a State approved District Assistance Intervention Team (DAIT) to implement and monitor a plan to address teaching and learning needs of the District. Three recommendations were provided to the District through this process, one in leadership, instruction, and evaluation. The Local Educational Area Plan (LEAP) was carefully revised and monitored to ensure that these recommendations were integrated into all District program areas. The District continued to ensure alignment of expenditures and purchases toward achievement of the recommendations through the review of each of the Single Plans for Student Achievement, professional development, and purchase orders. The 2013-2014 budget was built with a focus on the goals of the District, specific actions noted in the LEAP, and major support to Program Improvement schools and subgroups exhibiting gaps.

For 2013-2014 school districts did not receive an Academic Performance Index (API) Score. Therefore the District's API remained at the 800 target. Over a nine year period, C-VUSD experienced a 100-point gain in the Academic Performance Indicator (API) scores from 699 in 2003-2004 to 800 in 2013-2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The key assumptions in our revenue forecast are:

- LCFF Revenue is budgeted at $7,792 per ADA, comprised 0.85 percent COLA, 70 percent Unduplicated and 29.56 percent LCFF Funding Gap. Enrollment projections indicate a decline in student population that directly effects the LCFF revenue funding. Projected Second Period Apportionment (P2 ADA) is projected at 12,136, included 176.80 LACOE operated programs ADA. The District will be funded on the prior year P2 ADA of 12,445.98.

- LCFF income is budgeted at $96.9 million, an increase of $8.6 million, or 9.83 percent from the prior year. This included property tax revenues budgeted at $12.0 million and EPA revenues budgeted at $14.7 million.

- Federal Income is budgeted at $6.9 million, an increase of $1.2 million. The increase is mainly attributed to Title I, II, III carryovers and Medical Administrative Activities.

- State income is budgeted at $32.9 million, an increase of $3.4 million. The increase is mainly attributed to Prop. 39 Clean Energy of $1.0 million and Special Ed of $2.0 million.

- Other Local revenue is budgeted at $0.9 million, same level as previous year.

- Interest income from reserves held at the Los Angeles County Treasury Office is projected at $200 thousand with an interest rate of 0.7 percent; a decrease of $100 thousand from the prior year.

- Unrestricted Lottery revenue is budgeted at $1.9 million, a decrease of $97 thousand over the prior year.

- Restricted Lottery revenue is budgeted at $0.46 million, a decrease of $16 thousand from prior year.

Expenditures are based on the following forecasts:

- Health and Welfare costs are expected to increase by $0.7 million from the prior year.
- The contribution for statutory benefits is equal to 11.35 percent for certificated personnel and 20.441 percent for classified personnel.
- COLA: 4.05 percent increase for CUEA and 3.5 percent increase for CSEA and Management & Confidential.
- Salary projections incorporate added costs for step, column, and longevity totaling approximately $0.8 million.
- Substitute teacher costs are budgeted at $1.0 million.
- Liability and property damage insurance is budgeted at $0.5 million.
- Utilities and other operating costs are budgeted at $3 million.
- The following represent projected certificated personal staffing ratios:

	Staffing Ratio	Enrollment
Grades kindergarten through three	22:1	3,370
Grades four through five	35:1	1,690
Grades sixth through twelve	37:1	7,171

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 Jennifer Root, the Chief Business Officer, at Covina-Valley Unified School District, 519 East Badillo Street, Covina, California, 91723, or e-mail at jroot@cvusd.k12.ca.us.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 68,996,079	$ 284,807	$ 69,280,886
Receivables	21,759,192	5,739	21,764,931
Prepaid expenses	16,043	-	16,043
Stores inventories	153,360	-	153,360
Other current assets	4,498	-	4,498
Capital Assets			
Land and construction in process	13,786,843	-	13,786,843
Other capital assets	183,893,342	-	183,893,342
Less: Accumulated depreciation	(87,221,256)	-	(87,221,256)
Total Capital Assets	110,458,929	-	110,458,929
Total Assets	201,388,101	290,546	201,678,647
LIABILITIES			
Accounts payable	17,992,682	17,475	18,010,157
Accrued interest payable	1,567,275	-	1,567,275
Unearned revenue	650,014	-	650,014
Current loans	11,910,000	-	11,910,000
Long-term obligations			
Current portion of long-term obligations	7,775,833	-	7,775,833
Noncurrent portion of long-term obligations	146,810,406	-	146,810,406
Total Long-Term Obligations	154,586,239	-	154,586,239
Total Liabilities	186,706,210	17,475	186,723,685
NET POSITION			
Net investment in capital assets	6,802,453	-	6,802,453
Restricted for:			
Debt service	4,711,616	-	4,711,616
Capital projects	1,063	-	1,063
Educational programs	7,486,686	-	7,486,686
Other activities	5,297,630	-	5,297,630
Other restrictions	2,044,855	273,071	2,317,926
Unrestricted	(11,662,412)	-	(11,662,412)
Total Net Position	$ 14,681,891	$ 273,071	$ 14,954,962

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**
Governmental Activities:			
Instruction	$ 79,645,204	$ 1,577,822	$ 13,086,699
Instruction-related activities:			
Supervision of instruction	3,849,964	251,550	1,552,140
Instructional library, media, and technology	1,475,254	-	826,798
School site administration	8,808,270	19,018	201,727
Pupil services:			
Home-to-school transportation	2,044,186	297	908
Food services	5,605,320	676,269	4,987,895
All other pupil services	5,766,564	156,223	1,509,143
Administration:			
Data processing	2,009,820	-	-
All other administration	7,891,761	134,410	940,472
Plant services	13,652,030	33,379	231,424
Facility acquisition and construction	2,537,001	-	-
Community services	3,165	-	-
Enterprise services	1,625	-	-
Interest on long-term obligations	7,465,701	-	-
Other outgo	6,812,285	676,874	2,221,350
Total Governmental Activities	147,568,150	3,525,842	25,558,556
Business-Type Activities			
Enterprise services	2,849,743	-	-
Total Business-Type Activities	2,849,743	-	-
Total School District Activities	$ 150,417,893	$ 3,525,842	$ 25,558,556

General revenues and subventions:
- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning as restated

Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (64,980,683)	$ -	$ (64,980,683)
(2,046,274)	-	(2,046,274)
(648,456)	-	(648,456)
(8,587,525)	-	(8,587,525)
(2,042,981)	-	(2,042,981)
58,844	-	58,844
(4,101,198)	-	(4,101,198)
(2,009,820)	-	(2,009,820)
(6,816,879)	-	(6,816,879)
(13,387,227)	-	(13,387,227)
(2,537,001)	-	(2,537,001)
(3,165)	-	(3,165)
(1,625)	-	(1,625)
(7,465,701)	-	(7,465,701)
(3,914,061)	-	(3,914,061)
(118,483,752)	-	(118,483,752)
-	(2,849,743)	(2,849,743)
-	(2,849,743)	(2,849,743)
(118,483,752)	(2,849,743)	(121,333,495)
12,199,523	-	12,199,523
8,738,881	-	8,738,881
324,407	-	324,407
79,034,112	-	79,034,112
553,820	1,066	554,886
5,843,529	2,907,314	8,750,843
106,694,272	2,908,380	109,602,652
(11,789,480)	58,637	(11,730,843)
26,471,371	214,434	26,685,805
$ 14,681,891	$ 273,071	$ 14,954,962

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 26,253,804	$ 25,182,087	$ 10,836,927	$ 62,272,818
Receivables	20,390,387	88,982	1,168,747	21,648,116
Due from other funds	150,000	-	-	150,000
Prepaid expenditures	16,043	-	-	16,043
Stores inventories	120,495	-	32,865	153,360
Other current assets	4,498	-	-	4,498
Total Assets	$ 46,935,227	$ 25,271,069	$ 12,038,539	$ 84,244,835
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 14,613,819	$ 192,527	$ 237,188	$ 15,043,534
Due to other funds	-	-	150,000	150,000
Current loans	11,910,000	-	-	11,910,000
Unearned revenue	637,514	-	12,500	650,014
Total Liabilities	27,161,333	192,527	399,688	27,753,548
Fund Balances:				
Nonspendable	171,538	-	32,865	204,403
Restricted	7,458,284	25,078,542	11,605,986	44,142,812
Assigned	2,366,765	-	-	2,366,765
Unassigned	9,777,307	-	-	9,777,307
Total Fund Balances	19,773,894	25,078,542	11,638,851	56,491,287
Total Liabilities and Fund Balances	$ 46,935,227	$ 25,271,069	$ 12,038,539	$ 84,244,835

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 56,491,287**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	$ 197,680,185	
Accumulated depreciation is:	(87,221,256)	
Net Capital Assets		110,458,929
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.		(1,567,275)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.		2,044,855
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	(116,048,499)	
Unamortized premium	(8,887,891)	
Qualified zone academy bonds	(3,590,299)	
Capital leases	(208,329)	
Compensated absences (vacations)	(1,331,581)	
Other postemployment benefits (OPEB)	(100,851)	
Early retirement incentives	(4,500,490)	
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is:	(18,077,965)	
Total Long-Term Obligations		(152,745,905)
Total Net Position - Governmental Activities		**$ 14,681,891**

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	$ 88,661,209	$ -	$ -	$ 88,661,209
Federal sources	5,714,139	-	5,454,239	11,168,378
Other State sources	18,886,281	-	1,651,529	20,537,810
Other local sources	6,314,450	195,015	10,031,818	16,541,283
Total Revenues	119,576,079	195,015	17,137,586	136,908,680
EXPENDITURES				
Current				
Instruction	71,647,085	-	1,379,815	73,026,900
Instruction-related activities:				
Supervision of instruction	3,790,374	-	61,693	3,852,067
Instructional library, media, and technology	1,472,595	-	-	1,472,595
School site administration	8,747,949	-	50,594	8,798,543
Pupil services:				
Home-to-school transportation	1,831,379	-	-	1,831,379
Food services	4,985	-	5,604,747	5,609,732
All other pupil services	5,470,193	-	-	5,470,193
Administration:				
Data processing	2,012,481	-	-	2,012,481
All other administration	4,922,452	-	339,367	5,261,819
Plant services	13,291,542	-	159,167	13,450,709
Facility acquisition and construction	2,282,380	5,747,620	1,169,614	9,199,614
Community services	3,172	-	-	3,172
Other outgo	6,812,285	-	-	6,812,285
Enterprise services	1,563	-	-	1,563
Debt service				
Principal	241,132	157,500	4,832,543	5,231,175
Interest and other	273,676	-	2,733,859	3,007,535
Total Expenditures	122,805,243	5,905,120	16,331,399	145,041,762
Excess (Deficiency) of Revenues Over Expenditures	(3,229,164)	(5,710,105)	806,187	(8,133,082)
Other Financing Sources (Uses)				
Transfers in	150,000	-	109,892	259,892
Transfers out	(1,465,808)	-	-	(1,465,808)
Net Financing Sources (Uses)	(1,315,808)	-	109,892	(1,205,916)
NET CHANGE IN FUND BALANCES	(4,544,972)	(5,710,105)	916,079	(9,338,998)
Fund Balance - Beginning	24,318,866	30,788,647	10,722,772	65,830,285
Fund Balance - Ending	$ 19,773,894	$ 25,078,542	$ 11,638,851	$ 56,491,287

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ (9,338,998)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	$ (7,159,088)	
Capital outlays	6,662,479	
Net Expense Adjustment		(496,609)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and early retirement incentives are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentives paid were less than the amount added by $2,627,887. Vacation earned was less than the amounts used by $133,267.		(2,494,620)
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 statements as an expense. The actual amount of the contribution was more that the annual required contribution.		(195,867)
Governmental funds report the effects of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This is the net effect of these related items:		
Premium on issuance	622,867	
Deferred charge on refunding	(1,884,978)	
Combined adjustment		(1,262,111)

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

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

Repayment of principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.	
General obligation bonds	$ 4,830,000
Qualified zone academy bonds	310,101
Capital lease obligations	91,074
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased by $825,357, and second, $2,370,698 of additional interest was accreted on the District's "capital appreciation" general obligation bonds.	(3,196,055)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	(36,395)
Change in Net Position of Governmental Activities	**$ (11,789,480)**

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Business-Type Activities Enterprise Fund Child Care Fund	Governmental Activities Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 284,807	$ 6,723,261
Receivables	5,739	111,076
Total Current Assets	290,546	6,834,337
LIABILITIES		
Current Liabilities		
Accounts payable	17,475	2,949,148
Current portion of long-term obligations	-	566,042
Total Current Liabilities	17,475	3,515,190
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	1,274,292
NET POSITION		
Restricted	273,071	2,044,855
Total Net Position	$ 273,071	$ 2,044,855

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	**Internal Service Fund**
OPERATING REVENUES		
Local and intermediate sources	$ 1,551,399	$ 14,504,122
OPERATING EXPENSES		
Payroll costs	1,359,918	-
Supplies and materials	250,932	-
Facility rental	56,184	-
Other operating cost	1,032,709	14,561,547
Total Operating Expenses	**2,699,743**	**14,561,547**
Operating Loss	**(1,148,344)**	**(57,425)**
NONOPERATING REVENUES		
Interest income	1,065	21,030
Transfers in	1,355,916	-
Transfers out	(150,000)	-
Total Nonoperating Revenues	**1,206,981**	**21,030**
Change in Net Position	58,637	(36,395)
Total Net Position - Beginning	214,434	2,081,250
Total Net Position - Ending	$ 273,071	$ 2,044,855

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 1,848,273	$ 54,875
Cash receipts from interfund services provided	-	14,378,181
Cash payments to other suppliers of goods or services	(242,496)	(12,404,166)
Cash payments to employees for services	(1,359,918)	-
Other operating cash payments	(1,088,893)	-
Net Cash Provided (Used) by Operating Activities	(843,034)	2,028,890
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	1,205,916	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,065	21,030
Net Increase in Cash and Cash Equivalents	363,947	2,049,920
Cash and Cash Equivalents - Beginning	(79,140)	4,673,341
Cash and Cash Equivalents - Ending	$ 284,807	$ 6,723,261
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$ (1,148,344)	$ (57,425)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables	296,874	(71,066)
Accrued liabilities	8,436	1,834,553
Claims liability	-	322,828
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (843,034)	$ 2,028,890

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

		Agency Funds
ASSETS		
Deposits and investments	$	785,511
Stores inventories		32,184
Total Assets	$	817,695
LIABILITIES		
Accounts payable	$	222,491
Due to student groups		595,204
Total Liabilities	$	817,695

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates ten elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

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 Covina-Valley Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has financial and operational relationships with the Covina-Valley Unified School District Facilities Finance Corporation (Corporation), as represented by the Qualified Academy Zone Bonds, which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data for the District. The financial statements present the Corporation's financial activity within the Building Fund. Qualified zone academy bonds issued are included as long-term obligation in the government-wide financial statements.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and other sources, and expenditures and other uses of $735,860, $529,664, $129,436, and $1,818,291, respectively.

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.

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.

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

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

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

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

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

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 lA), the 2002 State School Facilities Fund (Proposition 47) the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

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

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance fund that is accounted for as an internal service fund.

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The child care enterprise fund of the District accounts for the financial transactions related to the before and after day care operations of the District.

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

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 funds account for student body activities (ASB), and for payroll and related expenses paid in advance.

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach. 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 asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in 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 an expenditure 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 cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary and fiduciary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements/infrastructure, 20 years; equipment, 5 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 governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt, 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, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

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. This liability is offset with cash deposits in the County Treasurer.

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

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.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $19,541,850 of restricted net position.

Operating Revenues and Expenses

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

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

Change in Accounting Principles

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

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

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by $1,353,186. The decrease results from no longer deferring and amortizing bond issuance costs.

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 27 and 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).

- 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 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 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 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 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 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.

This Statement amends paragraph 137 of Statement 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 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 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	$ 68,996,079
Business-type activities	284,807
Fiduciary funds	785,511
Total Deposits and Investments	$ 70,066,397

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

Cash on hand and in banks	$ 846,011
Cash in revolving	35,000
Investments	69,185,386
Total Deposits and Investments	$ 70,066,397

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.

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 Los Angeles County Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

The District maintains an investment of $69,185,386 with the Los Angeles County Investment Pool with a fair value of approximately $68,881,846. This investment has an average weighted maturity of 741 days.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance of $903,172 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Fund
Federal Government						
Categorical aid	$ 1,917,579	$ -	$ 820,104	$ -	$ 2,737,683	$ -
State Government						
LCFF apportionment	13,157,354	-	-	-	13,157,354	-
Categorical aid	391,059	-	298,445	-	689,504	-
Lottery	1,142,943	-	-	-	1,142,943	-
Special education	2,627,902	-	-	-	2,627,902	-
Local Government					-	
Interest	120,872	88,982	15,928	11,769	237,551	945
Other Local Sources	1,032,678	-	34,270	99,307	1,166,255	4,794
Total	$ 20,390,387	$ 88,982	$ 1,168,747	$ 111,076	$ 21,759,192	$ 5,739

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	$ 2,886,240	$ -	$ -	$ 2,886,240
Construction in progress	5,030,671	5,869,932	-	10,900,603
Total Capital Assets Not Being Depreciated	7,916,911	5,869,932	-	13,786,843
Capital Assets Being Depreciated:				
Land improvements	77,957,385	1,107	-	77,958,492
Buildings and improvements	92,388,625	791,440	-	93,180,065
Furniture and equipment	12,754,785	-	-	12,754,785
Total Capital Assets Being Depreciated	183,100,795	792,547	-	183,893,342
Total Capital Assets	191,017,706	6,662,479	-	197,680,185
Less Accumulated Depreciation:				
Land improvements	23,278,031	3,801,309	-	27,079,340
Buildings and improvements	46,212,385	2,827,202	-	49,039,587
Furniture and equipment	10,571,752	530,577	-	11,102,329
Total Accumulated Depreciation	80,062,168	7,159,088	-	87,221,256
Governmental Activities Capital Assets, Net	$ 110,955,538	$ (496,609)	$ -	$ 110,458,929

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

Governmental Activities	
Instruction	$ 6,443,179
Home-to-school transportation	214,773
All other pupil services	286,363
Plant services	214,773
Total Depreciation Expenses All Activities	$ 7,159,088

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 Non-Major Governmental Funds
General Fund	$ 150,000

The balance of $150,000 is due to the General Fund from the Child Development Non-Major Governmental Fund to cover program costs.

Operating Transfers

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

	Transfer From		
Transfer To	General Fund	Enterprise Fund	Total
General Fund	$ -	$ 150,000	$ 150,000
Non-Major Governmental Funds	109,892	-	109,892
Enterprise Fund	1,355,916	-	1,355,916
Total	$ 1,465,808	$ 150,000	$ 1,615,808

The General Fund transferred $109,892 to the Child Development Non-Major Governmental Fund for the Cal-Safe program.

The General Fund transferred $1,355,916 to the Enterprise Fund to cover program expenditures.

The Enterprise Fund transferred $150,000 to the General Fund for excess costs for the Kids Korner program.

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Funds	Fiduciary Funds
Salaries and benefits	$ 6,220,890	$ -	$ 175,219	$ 2,658,049	$ 9,054,158	$ 9,758	$ -
LCFF apportionment	2,947,332	-	-	-	2,947,332	-	-
Supplies	329,310	66,635	33,095	-	429,040	-	-
Services	2,687,750	122,295	28,571	291,099	3,129,715	7,103	-
Construction	1,082,462	3,507	-	-	1,085,969	-	-
ROP	-	-	-	-	-	-	-
Special education	1,011,442	90	-	-	1,011,532	-	-
Other vendor payables	334,633	-	303	-	334,936	614	222,491
Total	$ 14,613,819	$ 192,527	$ 237,188	$ 2,949,148	$ 17,992,682	$ 17,475	$ 222,491

NOTE 7 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 611,494	$ -	$ 611,494
State categorical aid	26,020	12,500	38,520
Total	$ 637,514	$ 12,500	$ 650,014

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued $11,910,000 of Tax Revenue Anticipation Notes dated February 25, 2014 through the California School Cash Reserve Program Authority. The notes mature on October 1, 2014, and yield 0.10 percent interest. The notes were sold to supplement cash flow. Repayment requires that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account by October 1, 2014. As of June 30, 2014, the tax and revenue anticipation notes of $11,910,000 and related accrued interest and cash held in trust are included in these financial statements.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes is as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2013	Additions	Payments	Outstanding June 30, 2014
2/20/2013	0.23%	10/1/2013	$ 13,875,000	$ -	$ 13,875,000	$ -
7/1/2013	0.20%	4/1/2014	-	6,000,000	6,000,000	-
2/25/2014	0.10%	10/1/2014	-	11,910,000	-	11,910,000
			$ 13,875,000	$ 17,910,000	$ 19,875,000	$ 11,910,000

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	$ 136,585,766	$ 2,370,698	$ 4,830,000	$ 134,126,464	$ 5,750,000
Premium on issuance	9,510,758	-	622,867	8,887,891	-
Qualified zone academy bonds	3,900,400	-	310,101	3,590,299	325,606
Early retirement incentives	1,872,603	3,024,438	396,551	4,500,490	1,034,646
Capital lease	299,403	-	91,074	208,329	99,539
Other postemployment benefits	-	800,486	699,635	100,851	-
Accumulated vacation - net	1,464,848	-	133,267	1,331,581	-
Claims liability	1,517,506	888,870	566,042	1,840,334	566,042
	$ 155,151,284	$ 7,084,492	$ 7,649,537	$ 154,586,239	$ 7,775,833

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on qualified zone academy bonds are paid by the General/Building Funds. Payments on early retirement incentive are made by the General Fund. Payments on capital leases are also paid by the General Fund. Other postemployment benefits will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employee worked. Claims liability will be paid by the Internal Service Fund.

2001 Election General Obligation Bonds, Series B

On June 19, 2003, the District issued the $30,000,000 2001 Election General Obligation Bonds, Series B. The Series B bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting $29,170,000, and an aggregate principal debt service balance of $59,170,000. The bonds have a final maturity to occur June 1, 2028, with interest rates of 2.20 to 5.20 percent. Proceeds from the sale of the bonds were used to improve health and safety conditions of neighborhood schools, relieve classroom overcrowding, replace inadequate electrical, heating and ventilation systems, roofs, plumbing, and sewer systems, renovate outdated science laboratories, and renovate and/or add classrooms and other facilities. At June 30, 2014, the principal balance outstanding of the 2002 General Obligation Bonds, Series 2005 B was $29,506,418. Unamortized premium received on issuance of the bonds amounted to $455,238 as of June 30, 2014.

2006 Election General Obligation Bonds, 2006 Series A

On August 31, 2006, the District issued the $47,000,000 2006 Election General Obligation Bonds, 2006 Series A. The bonds have a fund maturity to occur August 1, 2031, with interest rates yields of 4.00 to 5.00 percent.

On May 9, 2013 the District issued the $40,500,000 2013 General Obligation Refunding Bonds. The net proceeds from the Refunding Bonds were used to advance refund a portion of the District's outstanding 2006 Election General Obligation Bonds, 2006 Series A. As the advance refunding met the requirements of an in-substance defeasance, the associated assets and liability were removed from the District's financial statements. At June 30, 2014, the remaining principal balance outstanding was $1,035,000. Unamortized premium received on issuance of the bonds amounted to $667,515 as of June 30, 2014.

2006 Election General Obligation Bonds, 2007 Series B

On October 3, 2007, the District issued the $18,999,949 2006 Election General Obligation Bonds, 2007 Series B. The 2007 Series B bonds were issued as capital appreciation bonds, with the value of the capital appreciation bonds accreting $19,460,051, and an aggregate principal debt service balance of $38,460,000. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields of 3.50 to 5.25 percent. Proceeds from the sale of the bonds were used to repair or replace deteriorating plumbing, restrooms, heating, ventilation, and electrical systems; upgrade classroom technology and computers, construct new library/media centers, and upgrade inadequate classrooms, equipment, school facilities and grounds. At June 30, 2014, the principal balance outstanding of the 2006 Election General Obligation Bonds, 2007 Series B was $21,035,046. Unamortized premium received on issuance of the bonds amounted to $326,911 as of June 30, 2014.

2001 Election General Obligation Refunding Bonds, 2011 Series A

On December 6, 2011, the District issued the $13,495,000 2001 Election General Obligation Refunding Bonds, 2011 Series A. The bonds have a final maturity to occur on August 1, 2026, with interest rates from 3.00 to 5.25 percent. The net proceeds of $15,050,332 (representing the principal amount of $13,495,000 plus premium on issuance of $1,555,332) from the issuance were used to advance refund the District's outstanding 2001 Election General Obligation Bonds, Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2012. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. At June 30, 2014, the principal balance outstanding on the 2001 Election General Obligation Refunding Bonds, 2011 Series A was $12,715,000. Unamortized premium received on issuance of the bonds amounted to $1,399,797 as of June 30, 2014.

2012 General Obligation Bonds, Series A

On May 9, 2013, the District issued $30,000,000 2012 General Obligation Bonds, Series A. The Series A bonds represent the first series of the authorized bonds to be issued under the authorization as approved by voters. The bonds were issued as current interest bonds. The bonds mature August 1, 2052, with interest yields of 2.00 to 4.15 percent. Proceeds from the bonds will be used to finance repair, upgrading, acquisition, construction and equipping school property and facilities approved by the voters and pay costs associated with the issuance of the bonds. At June 30, 2014, the principal balance outstanding was $30,000,000. Unamortized premium received on issuance of the bonds amounted to $1,062,439 as of June 30, 2014.

2013 General Obligation Refunding Bonds

On May 9, 2013, the District issued the $40,500,000 2013 General Obligation Refunding Bonds. The bonds have a final maturity to occur on August 1, 2031, with interest rates from 2.00 to 5.00 percent. The net proceeds of $46,380,717 (representing the principal amount of $40,500,000 plus premium on issuance of $5,880,717) from the issuance were used to advance refund the District's outstanding 2006 General Obligation Bonds, 2006 Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2014. At June 30, 2014, the principal balance outstanding was $39,835,000. Unamortized premium received on issuance of the bonds amounted to $4,975,991 as of June 30, 2014.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2014
6/19/2003	6/1/2028	2.20%-5.20%	$ 30,000,000	$ 30,118,122	$ 1,413,296	$ 2,025,000	$ 29,506,418
8/31/2006	8/1/2031	4.00%-5.00%	47,000,000	1,855,000	-	820,000	1,035,000
10/3/2007	8/1/2032	3.50%-5.25%	18,999,949	20,917,644	957,402	840,000	21,035,046
12/6/2011	8/1/2026	3.00%-5.25%	13,495,000	13,195,000	-	480,000	12,715,000
5/9/2013	8/1/2052	2.00%-4.15%	30,000,000	30,000,000	-	-	30,000,000
5/9/2013	8/1/2031	2.00%-5.00%	40,500,000	40,500,000	-	665,000	39,835,000
				$ 136,585,766	$ 2,370,698	$ 4,830,000	$ 134,126,464

Debt Service Requirements to Maturity

The bonds mature through 2053 as follows:

Fiscal Year	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest	Total
2015	$ 5,706,812	$ 43,188	$ 3,730,961	$ 9,480,961
2016	5,607,373	187,627	3,638,611	9,433,611
2017	5,917,798	347,202	3,537,111	9,802,111
2018	4,793,512	516,488	3,458,949	8,768,949
2019	4,997,754	697,246	3,405,024	9,100,024
2020-2024	28,135,582	6,539,418	15,616,105	50,291,105
2025-2029	34,008,811	11,706,189	11,674,102	57,389,102
2030-2034	19,413,822	7,446,178	6,856,150	33,716,150
2035-2039	2,385,000	-	5,466,875	7,851,875
2040-2044	4,880,000	-	4,650,175	9,530,175
2045-2049	8,280,000	-	3,254,625	11,534,625
2050-2053	10,000,000	-	949,050	10,949,050
Total	$ 134,126,464	$ 27,483,536	$ 66,237,738	$ 227,847,738

Qualified Zone Academy Bonds (QZAB)

On December 19, 2008, the District entered into a lease-lease back agreement whereby the District is leasing Fairvalley High School from the Covina-Valley Unified School District Facilities Finance Corporation in exchange for repaying the QZABs. The purpose of the agreement was to provide $5,000,000 for financing the cost of purchasing equipment and certain improvements to the property. The financing for the improvements is proved by the issuance of QZABs, pursuant to Section 1397E of the Internal Revenue Code. The District is required to make annual repayments, which will be invested in a special fund. The repayments, along with the interest earned, is expected to be sufficient to pay the remaining principal on the bonds. At June 30, 2014, the outstanding balance on the QZABs is $3,590,299.

Year Ending June 30,	Principal	Interest	Total
2015	$ 325,606	$ 35,903	$ 361,509
2016	341,886	32,647	374,533
2017	358,980	29,228	388,208
2018	376,929	25,638	402,567
2019	395,775	21,869	417,644
2020-2023	1,791,123	45,870	1,836,993
Total	$ 3,590,299	$ 191,155	$ 3,781,454

Early Retirement Incentive

During the 2007-2008 school year, the District adopted a supplemental retirement plan whereby certain eligible certificated and classified employees are provided an annuity to supplement the retirement benefits they are entitled to through their respective retirement systems. The criteria for participation were as follows: employees must be employed by the District as of February 12, 2008, eligible to retire under CalSTRS or CalPERS as of June 30, 2008, have resigned from the District after the completion of the 2007-2008 school year on or before June 30, 2008, have retired from CalSTRS or CalPERS no later than July 1, 2008, and have applied for benefits under this plan. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 102 employees, were purchased from Pacific Life Insurance Company.

During the 2010-2011 school year, the District adopted three additional early retirement incentives; STRS Golden Handshake, PERS Golden Handshake, and one other supplemental retirement program.

During the 2013-2014 school year, the District adopted an early retirement incentive: STRS Golden Handshake and PERS Golden Handshake. The incentives were provided for 52 employees.

As of June 30, 2014, the balance of the combined obligations associated with the supplemental retirement plans was $4,500,490.

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Equipment
Balance, July 1, 2013	$ 370,134
Payments	123,378
Balance, June 30, 2014	$ 246,756

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	$ 123,378
2016	123,378
Total	246,756
Less: Amount Representing Interest	38,427
Present Value of Minimum Lease Payments	$ 208,329

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was $893,807, and contributions made by the District during the year were $699,635. Interest on the net OPEB obligation and adjustments to the annual required contribution were ($3,801) and $5,496, respectively, which resulted in a decrease to the net OPEB asset of $195,867. As of June 30, 2014, the net OPEB liability was $100,851. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to $1,331,581.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2014, amounted to $1,840,334, using a discount factor of two percent.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 35,000	$ -	$ -	$ 35,000
Stores inventories	120,495	-	32,865	153,360
Prepaid expenditures	16,043	-	-	16,043
Total Nonspendable	171,538	-	32,865	204,403
Restricted				
Legally restricted programs	7,458,284	-	5,326,032	12,784,316
Capital projects	-	25,078,542	1,063	25,079,605
Debt services	-	-	6,278,891	6,278,891
Total Restricted	7,458,284	25,078,542	11,605,986	44,142,812
Assigned				
Deferred maintenance program	521,978	-	-	521,978
Fairvalley vocational center	1,180,714	-	-	1,180,714
LCFF - EIA carryover	252,101	-	-	252,101
Donations	205,202	-	-	205,202
Rotary mini grant	7,003	-	-	7,003
Lost book replacement	74,641	-	-	74,641
Library collections	13,716	-	-	13,716
DHH donations	5,759	-	-	5,759
Parent project	2,321	-	-	2,321
Scramento trip	2,729	-	-	2,729
Star testing	6,391	-	-	6,391
CASHSEE testing	7,558	-	-	7,558
Friend of Covina Valley	6,652	-	-	6,652
Mandated block grant reserve	80,000	-	-	80,000
Total Assigned	2,366,765	-	-	2,366,765
Unassigned				
Reserve for economic uncertainties	3,542,132	-	-	3,542,132
Remaining unassigned	6,235,175	-	-	6,235,175
Total Unassigned	9,777,307	-	-	9,777,307
Total	$ 19,773,894	$ 25,078,542	$ 11,638,851	$ 56,491,287

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2014, the following District major funds exceeded the budgeted amount in total as follows:

	Expenditures		
	Budget	Actual	Excess
General Fund	$ 117,966,963	$ 122,805,243	$ 4,838,280

Actual expenditures include on-behalf payments of $2,915,876 as required by generally accepted accounting principles, in addition to expenditures from Fund 11, Adult Education and Fund 14, Deferred Maintenance, due to their consolidation into the General Fund for reporting purposes.

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

Plan Description

The postemployment benefit plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Covina-Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 76 retirees and beneficiaries currently receiving benefits, 53 terminated plan members entitled to but not yet receiving benefits, and 962 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 (CEA), 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 $699,635 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB (Asset)/Obligation

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

Annual required contribution	$ 893,807
Interest on net OPEB asset	(3,801)
Adjustment to annual required contribution	5,496
Annual OPEB cost (expense)	895,502
Contributions made	(699,635)
Decrease in net OPEB asset	195,867
Net OPEB asset, beginning of year	(95,016)
Net OPEB obligation, end of year	$ 100,851

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
2012	$ 726,045	$ 853,312	118%	$ 25,780
2013	727,961	848,757	117%	(95,016)
2014	895,502	699,635	78%	100,851

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 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, 2013	$ -	$ 8,355,091	$ 8,355,091	0%	$ 71,572,862	12%

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 June 30, 2014, was 25 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 – EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22715 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Retiree Information

36 employees have retired in exchange for the additional two years of service credit. Four year cost for the replacement employees is reflected below:

	Employee	Service	Retired Employee		Replacement Employee (If Applicable)	
Position Vacated	Age	Credit	Salary	Benefits	Salary	Benefits
Principal	60.00	35.33	$ 469,568	$ 124,349	$ 415,008	$ 95,036
Teacher	59.60	29.88	330,068	95,631	204,000	73,155
Teacher	64.00	19.42	272,628	89,675	204,000	73,155
Specialist	65.50	22.07	374,784	98,028	-	-
Teacher	64.50	27.00	336,648	80,661	204,000	67,155
Counselor	65.58	36.00	411,054	104,029	-	-
Assistant Superintendent	58.17	35.30	650,160	139,905	650,160	119,422
Principal	63.00	25.64	536,724	131,313	-	-
Teacher	60.50	32.94	285,040	90,962	204,000	73,155
Teacher	69.58	37.00	343,427	97,017	204,000	61,155
Teacher	68.50	27.00	336,648	63,768	204,000	61,155

Retiree Information (continued)

	Employee	Service	Retired Employee		Replacement Employee (If Applicable)	
Position Vacated	Age	Credit	Salary	Benefits	Salary	Benefits
Teacher	61.25	21.00	$ 330,068	$ 93,391	$ 204,000	$ 73,155
Teacher	56.00	18.98	330,068	60,858	204,000	73,155
Principal	62.08	30.99	471,360	110,283	17,064	53,770
Teacher	62.75	27.87	349,346	65,085	204,000	73,155
Principal	58.00	14.00	451,152	108,188	17,064	53,770
Teacher	58.00	21.15	311,120	78,014	204,000	73,155
Teacher	63.75	28.64	336,648	61,541	-	-
Teacher	62.00	38.95	336,648	96,314	204,000	73,155
Teacher	63.83	17.77	296,260	92,125	204,000	67,155
Teacher	58.92	34.26	336,648	65,202	204,000	73,155
Teacher	63.50	24.48	250,796	54,866	-	-
Teacher	64.25	40.00	336,648	65,202	204,000	67,155
Teacher	60.75	29.00	336,648	96,314	204,000	73,155
Teacher	60.83	37.37	340,740	65,626	204,000	73,155
Teacher	60.92	29.17	173,440	44,618	-	-
Teacher	65.92	28.00	336,648	80,662	204,000	73,155
Teacher	64.17	18.00	352,155	66,810	204,000	67,155
Teacher	58.50	15.57	311,120	104,746	-	-
Teacher	61.00	27.96	330,068	88,243	-	-
Teacher	62.67	27.00	336,648	60,606	204,000	73,155
Principal	58.25	29.96	471,360	79,171	34,364	55,564
Teacher	60.92	36.65	336,648	80,662	204,000	73,155
Teacher	61.92	22.94	363,072	113,305	204,000	73,155
Teacher	61.33	36.42	336,648	75,654	204,000	73,155
Teacher	62.25	18.00	322,024	63,685	204,000	73,155
Total			$ 12,830,730	$ 3,086,509	$ 5,825,660	$ 2,012,127

Additional Costs

As a result of this early retirement incentive program, the District expects to incur $358,440 in additional costs. The breakdown in additional costs is presented below:

Postretirement health benefit costs	$ 348,000
Administrative costs	10,440
Total	$ 358,440

NOTE 14 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2014, the District was self-insured for property and liability coverage, and participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) risk management pool for amounts in excess of the District's member retention limit $25,000 for property and liability claims.

Workers' Compensation

For the fiscal year of 2013-2014, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. The District's self-insured retention limit for the 2013-2014 fiscal year was $250,000. Excess liability coverage for workers' compensation claims is provided by Schools Excess Liability Fund (SELF) public entity risk pool, through ASCIP.

Employee Medical Benefits

The District has contracted with various vendors to provide employee health benefits through the purchase of commercial insurance. Kaiser and Anthem Blue Cross provide medical care, Delta Dental and Delta Care provide dental care, VSP provides vision care and Mutual of Omaha provides life insurance. In addition, the District has contracted with Southern California Schools Employee Benefits Association (SCSEBA), an joint powers authority, to provide employee medical benefits. SCSEBA obtains benefit programs on behalf of the District through the purchase of commercial insurance. Rates are set through an annual calculation process.

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	Workers' Compensation
Liability Balance, July 1, 2012	$ 1,517,506
Claims and changes in estimates	520,593
Claims payments	520,593
Liability Balance, June 30, 2013	1,517,506
Claims and changes in estimates	888,870
Claims payments	566,042
Liability Balance, June 30, 2014	$ 1,840,334
Assets available to pay claims at June 30, 2014	$ 6,834,337

NOTE 15 - 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 the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were $4,551,611, $4,440,721, and $4,341,471, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the 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 $1,876,747, $1,858,100, and $1,799,288, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/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.

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 $2,915,876 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2014.

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Northview High Track and Field	$ 1,916,667	February 1, 2014
Welding Center	192,000	October 1, 2014
Covina High Track and Field	1,916,667	February 1, 2015
South Hills High Quad Improvements	2,000,000	February 1, 2015
Northview High Entrance	1,000,000	February 1, 2015
South Hills High Track and Field	1,916,667	August 1, 2015
District Sports Complex	15,750,000	October 1, 2015
	$ 24,692,001	

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Southern California Schools Employee Benefits Association (SCSEBA), joint power authority, and the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool and, through participation in ASCIP, the Schools Excess Liability Fund (SELF) public entity risk pool. The District pays an annual premium to SCSEBA and ASCIP for its medical and property/liability and workers' compensation excess liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2014, the District made a payment of $4,063,921 and $962,597 to SCSEBA and ASCIP, respectively, for services received.

NOTE 18 - SUBSEQUENT EVENTS

The District issued $6,945,000 of Tax Revenue Anticipation Notes dated July 1, 2014, through the California School Cash Reserve Program Authority. The notes mature on June 1, 2015, with an interest rate of 0.120 percent. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account on June 1, 2015.

NOTE 19 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position	Governmental Activities
Net Position - Beginning	$ 27,824,557
Restatement - cost of issuance	(1,353,186)
Net Position - Beginning as Restated	$ 26,471,371

REQUIRED SUPPLEMENTARY INFORMATION

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 70,698,858	$ 85,474,280	$ 88,661,209	$ 3,186,929
Federal sources	6,584,655	6,322,273	5,714,139	(608,134)
Other State sources	23,842,711	15,938,422	18,886,281	2,947,859
Other local sources	6,066,334	5,183,230	6,314,450	1,131,220
Total Revenues [1]	107,192,558	112,918,205	119,576,079	6,657,874
EXPENDITURES				
Current				
Certificated salaries	52,907,041	54,468,859	55,168,393	(699,534)
Classified salaries	17,358,872	17,671,214	18,364,876	(693,662)
Employee benefits	20,523,492	21,375,018	24,999,150	(3,624,132)
Books and supplies	4,084,954	4,768,772	4,216,842	551,930
Services and operating expenditures	11,189,400	11,593,056	11,131,725	461,331
Capital outlay	36,321	1,018,382	2,213,615	(1,195,233)
Other outgo	6,223,906	7,071,662	6,710,642	361,020
Total Expenditures [1]	112,323,986	117,966,963	122,805,243	(4,838,280)
Excess (Deficiency) of Revenues Over Expenditures	(5,131,428)	(5,048,758)	(3,229,164)	1,819,594
Other Financing Sources (Uses)				
Transfers in	3,001,000	201,085	150,000	(51,085)
Transfers out	(217,315)	(119,020)	(1,465,808)	(1,346,788)
Net Financing Sources (Uses)	2,783,685	82,065	(1,315,808)	(1,397,873)
NET CHANGE IN FUND BALANCES	(2,347,743)	(4,966,693)	(4,544,972)	421,721
Fund Balance - Beginning	24,318,866	24,318,866	24,318,866	-
Fund Balance - Ending	$ 21,971,123	$ 19,352,173	$ 19,773,894	$ 421,721

[1] On behalf payments of $2,915,876 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 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these funds are included in the Actual (GAAP Basis) revenues and expenditures, but are not included in the original and final General Fund budgets.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	$ -	$ 5,864,274	$ 5,864,274	0%	$ 64,180,287	9%
July 1, 2009	-	6,976,855	6,976,855	0%	68,551,431	10%
July 1, 2011	-	6,737,951	6,737,951	0%	70,102,418	10%
July 1, 2013	-	8,355,091	8,355,091	0%	71,572,862	12%

SUPPLEMENTARY INFORMATION

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
No Child Left Behind Act (NCLB)			
Title I, Grants To Local Educational Agencies			
Title I, Part A - Low Income and Neglected	84.010	14329	$ 1,717,669
Title II, Part A - Improving Teacher Quality	84.367	14341	345,079
Title III, Limited English Proficiency	84.365	10084	147,639
Title X, McKinney-Vento Homeless Children Assistance	84.196	14332	1,700
Carl D. Perkins Career and Technical Education: Secondary Vocational Education	84.048	14894	79,677
Advanced Placement Exam - Fee Assistance	84.330	23900	7,954
Passed Through Puente Hills SELPA			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	2,311,648
Private School Grant, Part B Section 611	84.027	10115	61,453
Preschool Grant, Part B, Section 619	84.173	13430	55,902
Preschool Local Grant, Part B	84.027A	13682	71,172
Mental Health Allocation Part B	84.027	14468	222,872
Preschool Staff Development	84.173A	13431	574
Subtotal Special Education (IDEA) Cluster			2,723,621
State Improvement Grant	84.323	14920	4,440
Early Intervention Programs, Part C	84.181	23761	170,597
Total U.S. Department of Education			5,198,376
U. S. DEPARTMENT OF HEALTH SERVICES			
Passed Through California Department of Health Services			
Medi-Cal Cluster:			
Medi-Cal Billing Options	93.778	10013	412,684
Subtotal Medi-Cal Cluster			412,684

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Child Care Development Fund Cluster:			
Child Development: Federal Child Care, Center-Based	93.575	13609 & 15136	$ 165,643
Child Development: Federal State Preschool	93.596	13609	115,448
Subtotal Child Development Fund Cluster			281,091
Total U.S. Department of Health and Human Services			693,775
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13523	3,527,084
Basic School Breakfast	10.553	13525	1,239,198
Food Distribution	10.555	13523	406,866
Subtotal Child Nutrition Cluster			5,173,148
Total U.S. Department of Agriculture			5,173,148
Total Federal Programs			$ 11,065,299

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2014

ORGANIZATION

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates ten elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Darrell A. Myrick	President	2017
Richard M. White	Vice President	2017
William L. Knoll	Clerk	2015
Charles M. Kemp	Member	2015
Sue L. Maulucci	Member	2015

ADMINISTRATION

NAME	TITLE
Catherine J. Nichols, Ed.D.	District Superintendent
William N. Brown	Assistant Superintendent, Personnel Services
Lynn Carmen Day	Assistant Superintendent, Educational Services
David Rivera	Chief Business Officer

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Final Report Second Period Report	Final Report Annual Report
Regular ADA		
Transitional kindergarten through third	3,289.00	3,286.06
Fourth through sixth	2,469.47	2,465.68
Seventh and eighth	1,897.77	1,894.17
Ninth through twelfth	4,573.88	4,537.98
Total Regular ADA	12,230.12	12,183.89
Extended Year Special Education		
Transitional kindergarten through third	5.13	5.13
Fourth through sixth	6.19	6.19
Seventh and eighth	5.26	5.26
Ninth through twelfth	12.89	12.89
Total Extended Year Special Education	29.47	29.47
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.20	3.13
Fourth through sixth	5.11	5.48
Seventh and eighth	2.80	2.58
Ninth through twelfth	15.23	15.16
Total Special Education, Nonpublic, Nonsectarian Schools	26.34	26.35
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.49	0.49
Ninth through twelfth	1.45	1.45
Total Special Education, Nonpublic, Nonsectarian Schools	2.46	2.46
Community Day School		
Seventh and eighth	0.54	0.79
Ninth through twelfth	0.29	0.53
Total Community Day School	0.83	1.32
Total ADA	12,289.22	12,243.49

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2013-14 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	35,000	43,000	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			49,454	180	-	Complied
Grade 2			49,454	180	-	Complied
Grade 3			49,454	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			52,738	180	-	Complied
Grade 5			52,738	180	-	Complied
Grade 6			55,561	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			55,561	180	-	Complied
Grade 8			55,561	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			65,780	180	-	Complied
Grade 10			66,080	180	-	Complied
Grade 11			65,650	180	-	Complied
Grade 12			65,650	180	-	Complied

See accompanying note to supplementary information.

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.

COVINA-VALLEY UNIFIED 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	$ 118,752,846	$ 118,395,558	$ 115,830,081	$ 112,569,632
Other sources	50,000	201,085	1,826,957	3,309,525
Total Revenues and Other Sources	118,802,846	118,596,643	117,657,038	115,879,157
Expenditures	122,865,504	120,986,952	114,613,550	110,214,886
Other uses and transfers out	-	1,465,808	2,915,203	613,124
Total Expenditures and Other Uses	122,865,504	122,452,760	117,528,753	110,828,010
INCREASE (DECREASE) IN FUND BALANCE	$ (4,062,658)	$ (3,856,117)	$ 128,285	$ 5,051,147
ENDING FUND BALANCE	$ 15,181,572	$ 19,244,230	$ 23,100,347	$ 22,972,062
AVAILABLE RESERVES [2]	$ 8,568,527	$ 9,777,307	$ 14,923,939	$ 19,909,415
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	6.97%	8.18%	13.00%	18.40%
LONG-TERM OBLIGATIONS	N/A	$ 154,586,239	$ 155,151,284	$ 121,985,885
K-12 AVERAGE DAILY ATTENDANCE AT P-2	11,960	12,289	12,577	12,867

The General Fund balance has decreased by $3,727,832 over the past two years. The fiscal year 2014-2015 budget projects a further decrease of $4,062,658 (21 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, however anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by $32,600,354 over the past two years.

Average daily attendance has decreased by 578 over the past two years. An additional decline of 329 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 $2,915,876, $2,754,736, and $2,616,727, have 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 Fund 11, Adult Education Fund, and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS				
Deposits and investments	$ 55,813	$ 4,509,457	$ (2,060)	$ (5,174)
Receivables	245,935	914,515	3,123	5,174
Stores inventories	-	32,865	-	-
Total Assets	$ 301,748	$ 5,456,837	$ 1,063	$ -
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 110,846	$ 126,342	$ -	$ -
Due to other funds	150,000	-	-	-
Unearned revenue	12,500	-	-	-
Total Liabilities	273,346	126,342	-	-
Fund Balances:				
Nonspendable	-	32,865	-	-
Restricted	28,402	5,297,630	1,063	-
Total Fund Balances	28,402	5,330,495	1,063	-
Total Liabilities and Fund Balances	$ 301,748	$ 5,456,837	$ 1,063	$ -

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ 6,278,891	$ 10,836,927
-	-	1,168,747
-	-	32,865
$ -	$ 6,278,891	$ 12,038,539
$ -	$ -	$ 237,188
-	-	150,000
-	-	12,500
-	-	399,688
-	-	32,865
-	6,278,891	11,605,986
-	6,278,891	11,638,851
$ -	$ 6,278,891	$ 12,038,539

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES				
Federal sources	$ 281,091	$ 5,173,148	$ -	$ -
Other State sources	1,160,700	387,841	-	-
Other local sources	54,339	842,741	344,758	4,559
Total Revenues	1,496,130	6,403,730	344,758	4,559
EXPENDITURES				
Current				
Instruction	1,379,815	-	-	-
Instruction-related activities:				
Supervision of instruction	61,693	-	-	-
School site administration	50,594	-	-	-
Pupil services:				
Food services	19,786	5,584,961	-	-
Administration:				
All other administration	80,893	258,474	-	-
Plant services	110,372	48,795	-	-
Facility acquisition and construction	-	-	1,165,045	4,559
Debt service				
Principal	-	2,543	-	-
Interest and other	-	-	-	-
Total Expenditures	1,703,153	5,894,773	1,165,045	4,559
Excess (Deficiency) of Revenues Over Expenditures	(207,023)	508,957	(820,287)	-
Other Financing Sources				
Transfers in	109,892	-	-	-
NET CHANGE IN FUND BALANCES	(97,131)	508,957	(820,287)	-
Fund Balance - Beginning	125,533	4,821,538	821,350	-
Fund Balance - Ending	$ 28,402	$ 5,330,495	$ 1,063	$ -

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ -	$ 5,454,239
-	102,988	1,651,529
-	8,785,421	10,031,818
-	8,888,409	17,137,586
-	-	1,379,815
-	-	61,693
-	-	50,594
-	-	5,604,747
-	-	339,367
-	-	159,167
10	-	1,169,614
-	4,830,000	4,832,543
-	2,733,859	2,733,859
10	7,563,859	16,331,399
(10)	1,324,550	806,187
-	-	109,892
(10)	1,324,550	916,079
10	4,954,341	10,722,772
$ -	$ 6,278,891	$ 11,638,851

COVINA-VALLEY UNIFIED 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	$ 5,714	4.8	$ 6,359	5.5	$ 9,884	8.8
State and local revenue included in Local Control Funding Formula	87,712	74.1	68,345	59.0	68,855	61.2
Other State revenue	18,884	16.0	34,380	29.7	17,679	15.7
Other local revenue	3,323	2.8	6,746	5.8	6,430	5.7
Tuition and transfers in	2,763	2.3	-	0.0	9,722	8.6
Total Revenues	118,396	100.0	115,830	100.0	112,570	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	54,688	46.2	52,962	45.7	51,390	45.7
Classified salaries	17,554	14.8	16,578	14.3	16,355	14.5
Employee benefits	24,536	20.7	22,797	19.7	22,095	19.6
Total Salaries and Benefits	96,778	81.7	92,337	79.7	89,840	79.8
Books and supplies	4,151	3.5	3,550	3.1	3,335	3.0
Contracts and operating expenses	11,753	9.9	11,630	10.1	11,642	10.3
Capital outlay	1,594	1.4	692	0.6	296	0.3
Other outgo	6,711	5.7	6,405	5.5	5,102	4.5
Total Expenditures	120,987	102.2	114,614	99.0	110,215	97.9
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,591)	(2.2)	1,216	1.0	2,355	2.1
OTHER FINANCING SOURCES (USES)						
Operating transfers, net	(1,265)	(1.1)	(1,088)	(0.9)	2,696	2.4
INCREASE (DECREASE) IN FUND BALANCE	(3,856)	(3.3)	128	0.1	5,051	4.5
FUND BALANCE, BEGINNING	23,100		22,972		17,921	
FUND BALANCE, ENDING	$ 19,244		$ 23,100		$ 22,972	

NOTE: General Fund amounts do not include activity related to the consolidation of Fund 11, Adult Education Fund, and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

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 of Medi-Cal Billing Options funds that in the current year were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 11,168,378
Medi-Cal Billing Options	93.778	(103,079)
Total Schedule of Expenditures of Federal Awards		$ 11,065,299

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

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
Covina-Valley Unified School District
Covina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Covina-Valley Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Covina-Valley Unified School District's basic financial statements, and have issued our report thereon dated December 8, 2014.

Change in Accounting Principles

As discussed in Note 19 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Covina-Valley Unified School District in a separate letter dated December 8, 2014.

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 8, 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
Covina-Valley Unified School District
Covina, California

Report on Compliance for Each Major Federal Program

We have audited Covina-Valley Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Covina-Valley Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Covina-Valley Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 8, 2014

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Covina-Valley Unified School District
Covina, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Covina-Valley Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* 2013-2014. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Covina-Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion~~s~~. Our audit does not provide a legal determination of Covina-Valley Unified School District's compliance with those requirements.

Basis for Qualified Opinion on the Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Covina-Valley Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts as identified in finding 2014-001. Compliance with such requirements is necessary, in our opinion, for Covina-Valley Unified School District to comply with the requirements applicable to that program.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Covina-Valley Unified 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, Covina-Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014, 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 Covina-Valley Unified 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	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Yes
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 the ADA for this program was below the materiality threshold as indicated in the Standards and Procedures for the Audits of California K-12 Education Agencies 2013-2014 Audit Guide. Additionally, we did not perform steps for the California Clean Energy Jobs Act as the District did not spend any funds received in the 2013-2014 year.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 8, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 331,959
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

Unqualified for all programs except for the following State program which was qualified:

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

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

None reported.

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:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

Unduplicated Local Control Funding Formula Pupil Counts

2014-001 Code 40000

Criteria or Specific Requirements

The School District is required to maintain supporting documentation such as a Free and Reduce Price Meal (FRPM) eligibility application or an alternative household income data collection form that indicates the student was eligible for the designation indicated on the California Longitudinal Pupil Achievement Data System (CALPADS) 2013-2014 certified report.

Condition

The District did not have supporting documentation for 11 of the 135 students selected, who had a status designation of Free or Reduce on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. It appeared the District did not receive a current year application for these students and the 1.18 report was not updated. A population of 2,332 students was identified by the District who had a Free or Reduced designation in the prior year and who did not turn in an application in the current year. The District reviewed the remaining students and determined there were 74 additional exceptions. This resulted in 85 exceptions noted in total.

The following is a schedule of unduplicated pupil counts summarizing these results:

School Code	School Name	Total Enrollment	Unduplicated FRPM/EL/Foster Youth Total (4)	Adjustment	Adjusted total unduplicated pupil count
6012439	Barranca Elementary	641	491	(2)	489
6012447	Ben Lomond Elementary	463	391	(2)	389
1932086	Covina High	1,369	981	(8)	973
6012538	Las Palmas Middle	926	754	(4)	750
6012561	Mesa Elementary	618	312	(6)	306
1936418	Northview High	1,388	1,051	(20)	1,031
6012587	Rowland Avenue Elementary	502	387	(1)	386
6012595	Sierra Vista Middle	970	655	(9)	646
1938372	South Hills High	1,824	1,047	(33)	1,014
TOTAL - Selected		**12,558**	**9,195**	**(85)**	**9,110**

Questioned Costs

The question costs associated with this condition resulted in a decrease in Local Control Formula Funding of $56,387.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. The "1.18 – FRPM/English Learner/Foster Youth – Student List" was agreed to the"1.17 – FRPM/English Learner/Foster Youth Count" certified CALPADS report to ensure the correct 1.18 report was used. The initial sample was selected from six school sites which resulted in exceptions noted at one site. It appeared the errors were a result of students who had a Free or Reduced designation in the prior year and who did not turn in an application in the current year by the October 2, 2013 certified date. Additional procedures were performed resulting in the review of the remaining population of 2,332 students. The District did not have supporting documentation for 88 students in total after all procedures were performed.

Effect

As a result of our testing, it appeared the District did not update the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report for pupils that no supporting documentation was received indicating the student was eligible for the Free or Reduce designation as indicated on the CALPADS.

Cause

It appears the cause was due to the District being unsure which CALPADS report the changes had to be made to, and the timeline for which the District needed to make necessary changes to the reports.

Recommendation

The District should emphasize the importance of completing the Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should evaluate whether or not their 2014-2015 unduplicated pupil count percentage is higher than their 2013-2014 unduplicated percentage. If the District determines that their 2014-2015 unduplicated percentage is higher, the District's LCFF calculation will be based on the 2014-2015 unduplicated percentage, thus mitigating the financial impact the exceptions noted above have on compliance.

Corrective Action Plan

The District will review procedures to ensure that the correct designations are reflected on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report within the allowed time period. The Nutrition Services and Technology Departments will coordinate throughout the year to monitor and verify the accuracy of the FRPM data in CALPADS.

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

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

Governing Board
Covina-Valley Unified School District
Covina, California

In planning and performing our audit of the financial statements of Covina-Valley Unified School District (the District) for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 8, 2014, on the government-wide financial statements of the District.

General Clearing - Receipts

Observations

The following weaknesses were noted in the cash clearing account:

1. Multiple employees are issuing receipts for monies deposited at the District. In addition, the person responsible for receipting developer fees also is responsible for reconciling the bank account.
2. A receipt is issued for multiple cash deposits instead of for each individual cash count sheet. The auditor noted a difference of $180 between the deposit amount and receipt amount. However, the reason for the discrepancy could not be determined because multiple cash count sheets were included on one receipt.
3. Deposits made to the local bank are untimely. The auditor noted the number of days between the bank deposit date and the receipt date was over 20 days for two deposits.
4. Deposits made directly to the county treasury are untimely. The auditor noted a receipt for $49,854 was deposited to the county treasury 22 days after the District receipted it.
5. Transmittals made to the county treasury are untimely. The auditor noted one deposit took approximately 38 days to be transferred to the county treasury once it was deposited to the bank.

Recommendations

The District should review procedures and policies to ensure only one employee is responsible for receipting all monies deposited to the business department and a receipt is issued for each cash count sheet so there is a better audit trail to follow if discrepancies are noted between the deposit and receipt amounts. In addition, the District should ensure written policies are enforced so monies are deposited to the local bank and county treasury on a weekly basis. This procedure may be a difficult task due to the volume of funds received; however, the volume is also the reason weekly deposits should be made.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Payroll – Vacation Accruals

Observation

It appears the District is not following policies regarding vacation balances. We noted the District had 12 month employees with vacation balances that exceed the 15 months earned limit. In addition, for employees who work less than 12 months, it was noted that these employees were allowed to carryover unused vacation hours at the end of the fiscal year without prior approval.

Recommendation

The District should implement the necessary procedures to enforce the District Board policies regarding vacation balances. Procedures should include monitoring of the employee's balance by the payroll department to ensure it has been earned within 15 months. This will help alleviate the District from accumulating a large vacation liability.

ASSOCIATED STUDENT BODY

Traweek Middle School

Observations

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

1. Eight of the 14 student body disbursements did not have receiving documentation.
2. One of the 14 checks written for disbursements did not have two signors.
3. Twelve of the 14 disbursements were not pre-approved. Furthermore, two of the 14 disbursements did not have the required three signatures for approval.
4. Fundraisers are not shown as being approved in the ASB minutes prior to the event occurring.
5. Petty cash/change fund is not properly reported on the site's financials.

Recommendations

1. All expenditures should be supported with receiving documentation when possible. If for some reason the packing slip was disposed of, the person who received the items should sign and date the invoice. Signing and dating the invoice will prompt the payment of the items because it confirms that the items are all accounted for. These procedures will ensure that items are only being paid for once they have been properly received.
2. All checks written from the ASB should be signed by two signors listed on the account. The ASB clerk should ensure that this is done before sending the check as payment. These procedures will ensure that there is proper segregation over the site's monies.
3. All expenditures must be pre-approved in the ASB minutes and signed by three personnel, one being a student representative. The clubs/teams need to be sure to turn in a purchase requisition prior to the purchasing of the items. The ASB should be sure to sign all approved purchase requests before they notify the club that they can make the purchase. These procedures will ensure that there is sufficient funding within the club's account before any purchases are made and that the purchase is appropriate.
4. Fundraisers need to be approved by the ASB and should be supported within the ASB minutes in order to show that the proper approvals were received. These procedures will ensure that the event/fundraiser will be allowable under all associated rules and regulations for food and other fundraiser limitations.

5. Site monies should be entered into the system as an asset so as to properly report assets. The District should help the site input this information into BlueBear so it is properly stated on the financial statements.

Covina High School

Observations

1. Seven of the 21 deposits were untimely. Two of the 21 deposits were untimely due to the site not depositing the monies before break, and the other five were untimely as the site did not make deposits in sequential order.
2. Cash is not counted in the presence of another individual.
3. Revenue potential forms do not state the actual expenditures and revenues or the differences between the expected and actuals.
4. Two of the 14 disbursements tested did not have prior approval. In addition, one vendor that the site makes purchases with throughout the year did not have a purchase requisition.
5. Students are authorized signors on the bank account.
6. One open purchase order was issued without any specific vendor or item listed on it.
7. The petty cash/change fund is not properly stated on the site's financials.

Recommendations

1. All deposits should be made within a seven-day period or less if the site has a high frequency of cash flow. The site should deposit in sequential order and verify that all deposits have been deposited as such. Furthermore, the site should be sure to deposit all monies before breaks. These procedures will help ensure that all deposits are properly accounted for to strengthen the safeguarding of the assets.
2. Monies receipted and deposited through the main ASB should be counted in the presence of two individuals. In order to document this action is taking place, the site should have both personnel sign the cash count sheet. These procedures will help properly safeguard the assets.
3. Revenue potential forms are required to state expected fundraiser cost and revenues, actual cost and revenues, and the differences between the two. The actual cost and revenues will ensure that all monies are accounted for in the club/team's financial statements. Stating the difference between the expected and the actual data needs to be documented so that the site can explain what the differences were due to. The explanation should state why the fundraiser was or was not advantageous.
4. All expenditures must be pre-approved in the ASB minutes and signed by three personnel, one being a student representative. The clubs/teams need to be sure to turn in a purchase requisition prior to the purchasing of the items. The ASB should be sure to sign all approved purchase requests before they notify the club that they can make the purchase. Furthermore, the site may use open purchase orders when the club/team has a specific vendor and specific item that they will be continuously purchasing through the year. These procedures will ensure that there is sufficient funding within the club's account before any purchases are made and that the purchase is appropriate.
5. Students should not be signors on any accounts. The site should immediately remove all students as authorized signors from all bank accounts.
6. All purchase requests (even open purchase requests) should be specifically stated for the vendor and type of purchase that is to be made. The site is not able to make open blanket purchase orders for monies that are not specifically assigned to any specific type of purchase from the properly stated, associated vendor. These procedures will ensure that all purchases are appropriate for the ASB/club/team to make.

7. Site monies were not properly entered into the system as an asset so as to properly report assets. The District should help the site properly state this information in BlueBear so it is properly stated on the financial statements.

Las Palmas Middle School

<u>Observation</u>

At June 30, 2014, the site reported total assets of $2,610 and accounts payable of $7,057, which resulted in a deficit due to student group balance of $4,447.

<u>Recommendation</u>

In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 8, 2014