

**MISSION UNION SCHOOL DISTRICT  
COUNTY OF MONTEREY  
SOLEDAD, CALIFORNIA**

AUDIT REPORT  
June 30, 2014



**MISSION UNION SCHOOL DISTRICT**  
**TABLE OF CONTENTS**  
**JUNE 30, 2014**

**FINANCIAL SECTION**

Independent Auditors' Report.....	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	3
Statement of Activities.....	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	9
Notes to Basic Financial Statements.....	10

**REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule:	
General Fund.....	25
Schedule of Funding Progress for Post Employment Benefits Other than Pensions.....	26

**SUPPLEMENTARY INFORMATION SECTION**

Combining Fund Financial Statements and Individual Fund Schedules:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	27
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	28
Individual Nonmajor Fund Budgetary Comparison Schedules:	
Deferred Maintenance Fund.....	29
Bond Interest and Redemption Fund.....	30
Capital Facilities Fund.....	31
Organization.....	32
Schedule of Average Daily Attendance.....	33
Schedule of Instructional Time.....	34
Schedule of Financial Trends and Analysis.....	35
Schedule of Expenditures of Federal Awards.....	36
Note to Schedule of Expenditures of Federal Awards.....	37
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	38
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	40
Independent Auditors' Report on State Compliance.....	42

**FINDINGS AND RECOMMENDATIONS SECTION**

Schedule of Audit Findings and Questioned Costs.....	45
Schedule of Prior Fiscal Year Audit Findings and Questioned Costs.....	48



**FINANCIAL SECTION**





MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

2400 PROFESSIONAL PARKWAY, STE. 205  
SANTA MARIA, CA 93455  
TEL: 805.925.2579  
FAX: 805.925.2147  
www.mlhcpas.com

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mission Union School District  
Soledad, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for the Mission Union School District (District) as of and for the fiscal 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.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinions*

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

**Emphasis of Matter**

*Change in Accounting Principles*

As discussed in note 1 to the basic financial statements effective July 1, 2013, Mission Union School District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. 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 budgetary information on page 25 and the schedule of funding progress for postemployment benefits other than pensions on page 26, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Mission Union School District's basic financial statements. The accompanying combining and individual fund financial statements and schedules, financial, and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Mission Union 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 the District's internal control over financial reporting and compliance.

*Moss, Remy & Hoyle LLP*

Santa Maria, California  
December 10, 2014

# MISSION UNION SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2014

<b>Assets</b>	<u>Governmental Activities</u>
Cash in county treasury	\$ 1,256,723
Revolving cash fund	500
Accounts receivable	98,074
Land	190,615
Buildings and improvements	5,020,917
Equipment	119,141
Less accumulated depreciation	<u>(1,748,629)</u>
Total assets	<u>4,937,341</u>
 <b>Liabilities</b>	
Accounts payable	84,511
Unearned revenue	328,716
Interest payable	5,943
Long-term liabilities:	
Due within one year:	
Capital lease payable	12,155
General obligation bonds payable	<u>10,000</u>
Total due within one year	<u>441,325</u>
Due after one year:	
Capital lease payable	157,837
General obligation bonds payable	265,000
OPEB payable	<u>49,589</u>
Total due after one year	<u>472,426</u>
Total liabilities	<u>913,751</u>
 <b>Net Position</b>	
Net investment in capital assets	3,137,052
Restricted for:	
Educational programs	85,233
Capital projects	443,533
Debt service	23,260
Unrestricted	<u>334,512</u>
Total net position	<u>\$ 4,023,590</u>

The accompanying notes are an integral part of this statement.

**MISSION UNION SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 780,495	\$ -	\$ 234,381	\$ 1,992
Instruction-related services:				
Instructional supervision and administration	1,800			
School site administration	208,632		3,140	
Pupil services:				
Food services	263			
All other pupil services	837			
General administration:				
All other general administration	55,543		1,226	
Plant services	97,743		50,095	
Interest on long-term debt	14,474			
Other outgo	550			
Depreciation (unallocated)	156,730			
Total governmental activities	<u>\$ 1,317,067</u>	<u>\$ -</u>	<u>\$ 288,842</u>	<u>\$ 1,992</u>

General revenues:

  Taxes and subventions:

    Taxes levied for general purposes

    Taxes levied for debt service

    Federal and state aid not restricted to specific purposes

    Interest and investment earnings

    Miscellaneous

Total general revenues

Change in net position

Net position, beginning of fiscal year

Net position, end of fiscal year

The accompanying notes are an integral part of this statement.

Net (Expense)  
Revenue and  
Changes in  
Net Position

---

\$ (544,122)

(1,800)  
(205,492)

(263)  
(837)

(54,317)  
(47,648)  
(14,474)  
(550)  
(156,730)

(1,026,233)

109,292  
23,510

791,654  
3,784

20,467  
948,707

(77,526)

4,101,116

\$ 4,023,590

**MISSION UNION SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash in County Treasury	\$ 691,014	\$ 441,494	\$ 124,215	\$ 1,256,723
Cash in Revolving Fund	500	-	-	500
Accounts Receivable	98,074	-	-	98,074
Total Assets	<u>789,588</u>	<u>441,494</u>	<u>124,215</u>	<u>1,355,297</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts Payable	\$ 84,511	\$ -	\$ -	\$ 84,511
Unearned Revenue	328,716	-	-	328,716
Total Liabilities	<u>413,227</u>	<u>-</u>	<u>-</u>	<u>413,227</u>
Fund Balances:				
Nonspendable	500	-	-	500
Restricted	85,233	441,494	31,242	557,969
Assigned	-	-	92,973	92,973
Unassigned	290,628	-	-	290,628
Total Fund Balances	<u>376,361</u>	<u>441,494</u>	<u>124,215</u>	<u>942,070</u>
Total Liabilities and Fund Balances	<u>\$ 789,588</u>	<u>\$ 441,494</u>	<u>\$ 124,215</u>	<u>\$ 1,355,297</u>

The accompanying notes are an integral part of this statement.

# MISSION UNION SCHOOL DISTRICT

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

Total fund balances - governmental funds \$ 942,070

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

Capital assets at historical cost	\$ 5,330,673
Accumulated depreciation	<u>1,748,629</u>

Net 3,582,044

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of net activities, it is recognized in the period it is incurred. (5,943)

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

Capital lease payable	\$ 169,992	
General obligation bonds payable	275,000	
OPEB payable	<u>49,589</u>	<u>(494,581)</u>

Total net position - governmental activities \$ 4,023,590

The accompanying notes are an integral part of this statement.

**MISSION UNION SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
LCFF Sources:				
State Apportionment or State Aid	\$ 609,367	\$ -	\$ -	\$ 609,367
Education Protection Account Funds	157,897	-	-	157,897
Local Sources	109,292	-	-	109,292
Federal Revenue	25,008	-	-	25,008
Other State Revenue	113,367	-	36	113,403
Other Local Revenue	198,654	1,992	23,928	224,574
Total Revenues	<u>1,213,585</u>	<u>1,992</u>	<u>23,964</u>	<u>1,239,541</u>
<b>Expenditures:</b>				
Instruction	770,396	-	-	770,396
Instruction - Related Services	210,432	-	-	210,432
Pupil Services	1,100	-	-	1,100
General Administration	55,543	-	-	55,543
Plant Services	336,411	-	-	336,411
Other Outgo	550	-	-	550
Debt Service:				
Principal	11,546	-	10,000	21,546
Interest	9,168	-	14,638	23,806
Total Expenditures	<u>1,395,146</u>	<u>-</u>	<u>24,638</u>	<u>1,419,784</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(181,561)</u>	<u>1,992</u>	<u>(674)</u>	<u>(180,243)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds From Capital Lease	181,538	-	-	181,538
Total Other Financing Sources (Uses)	<u>181,538</u>	<u>-</u>	<u>-</u>	<u>181,538</u>
Net Change in Fund Balances	(23)	1,992	(674)	1,295
Fund Balances, July 1	376,384	439,502	124,889	940,775
Fund Balances, June 30	<u>\$ 376,361</u>	<u>\$ 441,494</u>	<u>\$ 124,215</u>	<u>\$ 942,070</u>

The accompanying notes are an integral part of this statement.

# MISSION UNION SCHOOL DISTRICT

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

Total net change in fund balances - governmental funds	\$	1,295
Capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of \$247,836 exceeds depreciation expense of \$(156,730) in the period.		91,106
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		164
In government funds, repayments of long-term debt are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Payment of bond principal of \$10,000 and capital lease principal of \$11,546.		21,546
In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This fiscal year, the difference between OPEB costs and actual employers contributions was:		(10,099)
In government funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in the governmental funds as proceeds from debt, were:		<u>(181,538)</u>
Change in net position - governmental activities	\$	<u><u>(77,526)</u></u>

The accompanying notes are an integral part of this statement.

# MISSION UNION SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Policies

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

#### B. Reporting Entity

The reporting entity is the Mission Union School District. There are no component units included in this report which meet the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39 and GASB Statement No. 61.

#### C. Basis of Presentation

##### *Government-wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. Government-wide statements differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation, with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

##### *Fund Financial Statements:*

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

#### D. Basis of Accounting

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

##### *Revenues – exchange and non-exchange transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after fiscal year end.

# MISSION UNION SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Basis of Accounting (Continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

#### *Unearned revenue:*

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

#### *Expenses/expenditures:*

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditure related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and nonmajor funds as follows:

#### *Major Governmental Funds:*

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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

The County School Facilities Fund is used to account for resources received from Proposition 1A, to be used for new construction, modernization, and class size reduction.

#### *Nonmajor Governmental Funds:*

**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. The District maintains one nonmajor special revenue fund:

The Deferred Maintenance Fund is used for the purpose of major repair or replacement of the District's property.

# MISSION UNION SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### E. Fund Accounting (Continued)

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The District maintains one nonmajor debt service fund.

The Bond Interest and Redemption Fund is used to account for general obligation bond interest and redemption of bond principal.

**Capital Projects Funds** are used to account for the acquisition and/or construction of all major governmental capital assets. The District maintains one nonmajor capital projects fund:

The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under the provisions of the California Environmental Quality Act (CEQA).

#### F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and District Superintendent during the fiscal year to give consideration to unanticipated income and expenditures.

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

#### G. Encumbrances

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

#### H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### I. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish 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. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and*

# MISSION UNION SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### I. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 66 (Continued)

*Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

#### J. Assets, Liabilities, and Equity

##### 1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Monterey County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq.. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with the Monterey County Treasury was not available.

##### 2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables.

##### 3. Inventories and Prepaid Items

Inventory is recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at the lower of cost (first-in, first out) or market and consists of expendable supplies held for consumption.

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 expenditure during the period purchased.

**MISSION UNION SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

J. Assets, Liabilities, and Equity (Continued)

4. Capital Assets

Capital assets are those purchased or acquired with an original costs of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed capital assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of a capital asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the capital assets or materially extend the capital assets' lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using the straight-line basis over the following estimated useful lives.

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression system	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and tools	Shop and maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science and engineering	Lab equipment, scientific apparatus	10
Furniture and accessories	Classroom and other furniture	20
Business machines	Fax, duplicating and printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative long-term	10 to 20
Audio visual equipment	Projectors, cameras (still and digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

5. Unearned Revenue

Cash is received for federal and state special projects and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

# MISSION UNION SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### J. Assets, Liabilities, and Equity (Continued)

##### 6. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The liabilities are recognized in the General Fund at fiscal year.

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

##### 7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

##### 8. Fund Balances

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the District.

**Unassigned Fund Balance** – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

##### 9. Minimum Fund Balance Policy

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to \$188,563.

# MISSION UNION SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### J. Assets, Liabilities, and Equity (Continued)

#### 10. Property Tax

The County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

## NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments at June 30, 2014, consisted of the following:

Cash in banks	\$ 500
Cash and investments with the County Treasurer	<u>1,256,723</u>
Total cash and investments	<u>\$ 1,257,223</u>

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash in county treasury, statement of net position	\$ 1,256,723
Cash in revolving fund, statement of net position	<u>500</u>
Total cash and investments	<u>\$ 1,257,223</u>

### Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Monterey County Treasury as part of the common investment pool (\$1,256,723 as of June 30, 2014). The fair value of this pool as of that date, as provided by the plan sponsor, was \$1,256,723. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The County is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, State registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements

### Cash on Hand, in Banks, and in Revolving Fund

Cash balance on hand and in banks (\$0 as of June 30, 2014) and in the revolving fund (\$500 as of June 30, 2014) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

**MISSION UNION SCHOOL DISTRICT**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Monterey. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to 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. One of the ways that the District manages its exposure to interest rate risk is by 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.

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Monterey County Investment Pool	\$ 1,256,723	\$ 1,256,723	\$ -	\$ -	\$ -
Total	\$ 1,256,723	\$ 1,256,723	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Monterey County Investment Pool	\$1,256,723	N/A	\$ -	\$ -	\$ -	\$1,256,723
Total	\$1,256,723		\$ -	\$ -	\$ -	\$1,256,723

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**MISSION UNION SCHOOL DISTRICT**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk (Continued)

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Monterey County Investment Pool).

**NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations in individual funds is as follows:

<u>Major Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 254
Capital outlay	\$ 181,213
<u>Nonmajor Fund</u>	
Bond Interest and Redemption Fund:	
Debt Service	\$ 24,638

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2014, consist of the following:

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Other Governmental Funds</u>
Federal Government:			
Federal programs	\$ 1,145	\$ -	\$ -
State Government:			
Apportionment	77,141		
Lottery	9,562		
Categorical aid programs	10,226		
Totals	<u>\$ 98,074</u>	<u>\$ -</u>	<u>\$ -</u>

**MISSION UNION SCHOOL DISTRICT**  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 5 – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 190,615	\$ -	\$ -	\$ 190,615
Total capital assets, not being depreciated	<u>\$ 190,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 190,615</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,773,081	\$ 247,836	\$ -	\$ 5,020,917
Equipment	119,141			119,141
Total capital assets, being depreciated	<u>4,892,222</u>	<u>247,836</u>	<u>-</u>	<u>5,140,058</u>
Less accumulated depreciation for:				
Buildings and improvements	1,481,064	154,557		1,635,621
Equipment	110,835	2,173		113,008
Total accumulated depreciation	<u>1,591,899</u>	<u>156,730</u>	<u>-</u>	<u>1,748,629</u>
Total capital assets, being depreciated, net	<u>\$ 3,300,323</u>	<u>\$ 91,106</u>	<u>\$ -</u>	<u>\$ 3,391,429</u>
Governmental activities, capital assets, net	<u>\$ 3,490,938</u>	<u>\$ 91,106</u>	<u>\$ -</u>	<u>\$ 3,582,044</u>

Depreciation expense was charged to governmental activities, as follows:

Governmental Activities:

Unallocated	\$ 156,730
Total depreciation expense	<u>\$ 156,730</u>

**NOTE 6 – CAPITAL LEASE**

The District leases a solar energy system valued at \$181,538 under an agreement which provides for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Total</u>
2015	\$ 20,714
2016	20,714
2017	20,714
2018	20,714
2019	20,714
2020-2024	103,570
2025	<u>15,535</u>
Total minimum lease payments	\$222,675
Less amount representing interest	<u>(52,683)</u>
Present value of net minimum lease payments	<u>\$ 169,992</u>

# MISSION UNION SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

## NOTE 7 – BONDED DEBT

The outstanding general obligation bonded debt of the Mission Union School District at June 30, 2014, is:

<u>Date Of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2013</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2014</u>
2005	4.0%-5.25%	2030	\$ 315,000	\$ 285,000	\$ -	\$ 10,000	\$ 275,000

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 10,000	\$ 14,175	\$ 24,175
2016	10,000	13,650	23,650
2017	10,000	13,125	23,125
2018	10,000	12,600	22,600
2019	15,000	11,944	26,944
2020-2024	75,000	47,906	122,906
2025-2029	95,000	26,119	121,119
2030-2031	50,000	2,625	52,625
	<u>\$ 275,000</u>	<u>\$ 142,144</u>	<u>\$ 417,144</u>

## NOTE 8 - LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the fiscal year ended June 30, 2014, is shown below:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Due within One Year</u>
Capital lease payable	\$ -	\$ 181,538	\$ 11,546	\$ 169,992	\$ 12,155
Bonds payable	285,000		10,000	275,000	10,000
OPEB payable	39,490	10,099		49,589	
Totals	<u>\$ 324,490</u>	<u>\$ 191,637</u>	<u>\$ 21,546</u>	<u>\$ 494,581</u>	<u>\$ 22,155</u>

## NOTE 9 - JOINT VENTURES (Joint Powers Agreements)

The Mission Union School District participates in three joint powers agreements (JPAs): the Monterey County Schools Workers' Compensation Group, the Monterey County Property/Liability and the Monterey County Schools Insurance Group. The relationship between Mission Union School District and each JPA is such that each JPA is not a component unit of the Mission Union School District for financial reporting purposes.

The Monterey County Schools Workers' Compensation Group arranges for and provides insurance coverage for workers' compensation claims. The Monterey County Property/Liability arranges for and provides property and liability insurance. The Monterey County Schools Insurance Group provides medical and health insurance coverage.

Each JPA is governed by a board consisting of a representative from each member district. The Boards control the operations of each JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in each JPA.

**MISSION UNION SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

**State and Federal Allowances, Awards, and Grants**

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

**Litigation**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**NOTE 11 – EMPLOYEES' RETIREMENT SYSTEMS**

**State Teachers' Retirement System (STRS)**

**Plan Description**

The Mission Union School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The Plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS' annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary and the Mission Union School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014, was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statutes. The Mission Union School District's contributions to STRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$44,754, \$43,478, and \$44,513, respectively, and equal 100% of the required contributions for each fiscal year.

**California Public Employees' Retirement System (CalPERS)**

**Plan Description**

The Mission Union School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

**Funding Policy**

Active plan members are required to contribute 7.0% of their salary and the Mission Union School 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 the fiscal year 2013-2014, was 11.442% of annual payroll. The contribution requirements of the plan members are established by State statutes. The Mission Union School District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$12,853, \$12,324, and \$10,804, respectively, and equal 100% of the required contributions for each fiscal year.

# MISSION UNION SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

## NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

### Plan Description

The District provides post-retirement medical benefits to all retirees with fifteen years of service who retire from the District and have reached the minimum age of 60. The duration of the benefits are not beyond age 65.

### Funding Policy

The District pays 100% of the medical benefits retirees. During fiscal year 2013-2014, expenditures of \$- were recognized for post-retirement health insurance contributions on a pay as you go basis.

The District is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the 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 liabilities (or funding excess) over a period not to exceed thirty years.

### Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan (including administrative costs), and changes in the District's Net OPEB Obligation/(Asset):

	Ended June 30, 2014
Annual Required Contributions	\$ 8,223
Interest on Net OPEB Obligation/(Asset)	1,876
Annual OPEB costs (expense)	10,099
Contributions made	
Increase in Net OPEB Obligation/(Asset)	10,099
Net OPEB Obligation/(Asset) - beginning of fiscal year	39,490
Net OPEB Obligation/(Asset) - end of fiscal year	\$ 49,589

The District's Annual OPEB Cost, the percentage of Annual OPEB cost contributed to the plan, and the Net OPEB Obligations/(Asset) are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 10,099	\$ -	0%	\$ 49,589
June 30, 2013	\$ 9,690	\$ 1,088	11%	\$ 39,490
June 30, 2012	\$ 13,385	\$ 1,123	8%	\$ 30,888

### Funded Status and Funding Progress

The funded status of the plan was as follows:

Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
April 1, 2013	\$ -	\$ 120,950	\$ 120,950	0.00%	\$ 603,484	18%

# MISSION UNION SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

## NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

### Actuarial Methods and Assumptions

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

In the April 1, 2013, actuarial valuation, the level percentage of payroll method was used. The actuarial assumptions included a 4.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 4 percent. The actuarial value of plan assets was not calculated in this, for the first actuarial valuation, as there are no assets to value. The Plan unfunded actuarial accrued liability is being amortized over a 30-year amortization period.

The District did not pre-fund retiree healthcare costs nor establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

## NOTE 13 – NET POSITION

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

*Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

*Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Position* – This category represents net position of the District, not restricted for any project or other purpose.

## NOTE 14 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Revolving cash	\$ 500	\$ -	\$ -	\$ 500
<b>Restricted</b>				
California Clean Energy Jobs Act	50,095			50,095
Lottery: instructional materials	6,726			6,726
Special education	10,147			10,147
Common Core State Standards Implementation	15,034			15,034
RMA	3,231			3,231
Capital projects		441,494	2,039	443,533
Debt service			29,203	29,203
<b>Assigned</b>				
Deferred maintenance projects			92,973	92,973
<b>Unassigned</b>	290,628			290,628
<b>Total</b>	<b>\$ 376,361</b>	<b>\$ 441,494</b>	<b>\$ 124,215</b>	<b>\$ 942,070</b>

**MISSION UNION SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date the financial statements were available for issuance which is December 10, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**



**MISSION UNION SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
LCFF Sources:				
State Apportionment or State Aid	\$ 566,296	\$ 629,119	\$ 609,367	\$ (19,752)
Education Protection Account Funds	111,092	135,464	157,897	22,433
Local Sources	112,830	112,111	109,292	(2,819)
Federal Revenue	22,200	52,348	25,008	(27,340)
Other State Revenue	109,300	104,903	113,367	8,464
Other Local Revenue	217,920	265,842	198,654	(67,188)
Total Revenues	<u>1,139,638</u>	<u>1,299,787</u>	<u>1,213,585</u>	<u>(86,202)</u>
Expenditures:				
Current:				
Certificated Salaries	580,750	580,750	577,190	3,560
Classified Salaries	119,900	118,400	118,654	(254)
Employee Benefits	222,154	220,293	216,167	4,126
Books And Supplies	52,505	115,321	63,043	52,278
Services And Other Operating Expenditures	139,863	210,094	151,848	58,246
Capital Outlay	45,000	87,031	268,244	(181,213)
Total Expenditures	<u>1,160,172</u>	<u>1,331,889</u>	<u>1,395,146</u>	<u>(63,257)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(20,534)</u>	<u>(32,102)</u>	<u>(181,561)</u>	<u>(149,459)</u>
Other Financing Sources (Uses):				
Proceeds From Capital Lease	-	-	181,538	181,538
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>181,538</u>	<u>181,538</u>
Net Change in Fund Balance	(20,534)	(32,102)	(23)	32,079
Fund Balance, July 1	376,384	376,384	376,384	-
Fund Balance, June 30	<u>\$ 355,850</u>	<u>\$ 344,282</u>	<u>\$ 376,361</u>	<u>\$ 32,079</u>

# MISSION UNION SCHOOL DISTRICT

## SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS

### OTHER THAN PENSIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The following table provides required supplementary information regarding the District's post employment healthcare benefits.

#### SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
April 1, 2010	\$ -	\$ 83,272	\$ 83,272	0.0%	\$ 456,565	18%
April 1, 2013	\$ -	\$ 120,950	\$ 120,950	0.0%	\$ 603,484	20%

**SUPPLEMENTARY INFORMATION SECTION**



**MISSION UNION SCHOOL DISTRICT**  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	<u>Deferred Maintenance Fund</u>	<u>Bond Interest &amp; Redemption Fund</u>	<u>Capital Facilities Fund</u>	
<b>ASSETS:</b>				
Cash in County Treasury	\$ 92,973	\$ 29,203	\$ 2,039	\$ 124,215
Total Assets	<u>92,973</u>	<u>29,203</u>	<u>2,039</u>	<u>124,215</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Total Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Restricted	-	29,203	2,039	31,242
Assigned	92,973	-	-	92,973
Total Fund Balances	<u>92,973</u>	<u>29,203</u>	<u>2,039</u>	<u>124,215</u>
Total Liabilities and Fund Balances	<u>\$ 92,973</u>	<u>\$ 29,203</u>	<u>\$ 2,039</u>	<u>\$ 124,215</u>

**MISSION UNION SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Deferred Maintenance Fund	Bond Interest & Redemption Fund	Capital Facilities Fund	
Revenues:				
Other State Revenue	\$ -	\$ 36	\$ -	\$ 36
Other Local Revenue	248	23,671	9	23,928
Total Revenues	<u>248</u>	<u>23,707</u>	<u>9</u>	<u>23,964</u>
Expenditures:				
Debt Service:				
Principal	-	10,000	-	10,000
Interest	-	14,638	-	14,638
Total Expenditures	<u>-</u>	<u>24,638</u>	<u>-</u>	<u>24,638</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>248</u>	<u>(931)</u>	<u>9</u>	<u>(674)</u>
Net Change in Fund Balances	248	(931)	9	(674)
Fund Balances, July 1	92,725	30,134	2,030	124,889
Fund Balances, June 30	<u>\$ 92,973</u>	<u>\$ 29,203</u>	<u>\$ 2,039</u>	<u>\$ 124,215</u>

**MISSION UNION SCHOOL DISTRICT**

DEFERRED MAINTENANCE FUND

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other Local Revenue	\$ 500	\$ 248	\$ (252)
Total Revenues	<u>500</u>	<u>248</u>	<u>(252)</u>
Expenditures:			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>500</u>	<u>248</u>	<u>(252)</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	500	248	(252)
Fund Balance, July 1	92,725	92,725	-
Fund Balance, June 30	<u>\$ 93,225</u>	<u>\$ 92,973</u>	<u>\$ (252)</u>

**MISSION UNION SCHOOL DISTRICT**  
**BOND INTEREST AND REDEMPTION FUND**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other State Revenue	\$ -	\$ 36	\$ 36
Other Local Revenue	-	23,671	23,671
Total Revenues	<u>-</u>	<u>23,707</u>	<u>23,707</u>
Expenditures:			
Debt Service:			
Principal	-	10,000	(10,000)
Interest	-	14,638	(14,638)
Total Expenditures	<u>-</u>	<u>24,638</u>	<u>(24,638)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(931)</u>	<u>(931)</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	(931)	(931)
Fund Balance, July 1	30,134	30,134	-
Fund Balance, June 30	<u>\$ 30,134</u>	<u>\$ 29,203</u>	<u>\$ (931)</u>

**MISSION UNION SCHOOL DISTRICT**

CAPITAL FACILITIES FUND

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other Local Revenue	\$ 6	\$ 9	\$ 3
Total Revenues	<u>6</u>	<u>9</u>	<u>3</u>
Expenditures:			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6</u>	<u>9</u>	<u>3</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	6	9	3
Fund Balance, July 1	2,030	2,030	-
Fund Balance, June 30	<u>\$ 2,036</u>	<u>\$ 2,039</u>	<u>\$ 3</u>

**MISSION UNION SCHOOL DISTRICT**  
ORGANIZATION  
JUNE 30, 2014

During the fiscal year under review, the District operated one elementary school with grades kindergarten through eighth. There were no changes in the boundaries of the District during the current fiscal year.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Kevin McClaskey	President	2017
Colby Periera	Vice President	2015
Kevin Sitko	Clerk	2015
Robby Whitlock	Member	2015
David Fleming	Member	2017

ADMINISTRATION

Timothy E. Ryan  
District Superintendent

Cindy Fellows  
Chief Business Officer

**MISSION UNION SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Second Period Report	Annual Report
<u>Elementary</u>		
Kindergarten through third	60.74	60.90
Fourth through sixth	45.66	45.78
Seventh and eighth	<u>20.59</u>	<u>20.49</u>
	<u>126.99</u>	<u>127.17</u>

Average daily attendance 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.

**MISSION UNION SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Grade Level</u>	<u>Ed. Code 46207 Minutes Requirement</u>	<u>Ed. Code 46207 Revised Minutes Requirement</u>	<u>2013-14 Actual Minutes</u>	<u>Number of days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	49,570	180	In compliance
Grade 1	50,400	49,000	56,385	180	In compliance
Grade 2	50,400	49,000	56,385	180	In compliance
Grade 3	50,400	49,000	56,385	180	In compliance
Grade 4	54,000	52,500	56,385	180	In compliance
Grade 5	54,000	52,500	58,950	180	In compliance
Grade 6	54,000	52,500	58,950	180	In compliance
Grade 7	54,000	52,500	58,950	180	In compliance
Grade 8	54,000	52,500	58,950	180	In compliance

Districts must maintain their instructional minutes as defined in Education Code Section 46207.

The District has received incentive funding for increasing instructional time as provided by the Incentive for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District met or exceed its targeted funding.

**MISSION UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>General Fund (note 1)</u>	<u>(Budget)</u> <u>2015 (note 3)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues and other financial sources	\$ 1,323,134	\$ 1,394,895	\$ 1,058,921	\$ 1,051,541
Expenditures	1,201,405	1,395,146	1,063,879	1,046,176
Other uses and transfers out	_____	_____	_____	_____
Total outgo	<u>1,201,405</u>	<u>1,395,146</u>	<u>1,063,879</u>	<u>1,046,176</u>
Change in fund balance	<u>121,729</u>	<u>(251)</u>	<u>(4,958)</u>	<u>5,365</u>
Ending fund balance	<u>\$ 373,527</u>	<u>\$ 251,798</u>	<u>\$ 252,049</u>	<u>\$ 257,007</u>
Available reserves (note 2)	<u>\$ 294,938</u>	<u>\$ 290,628</u>	<u>\$ 341,851</u>	<u>\$ 354,127</u>
Reserved for economic uncertainties	<u>\$ 184,883</u>	<u>\$ 188,563</u>	<u>\$ 189,946</u>	<u>\$ 210,927</u>
Unassigned fund balance	<u>\$ 110,055</u>	<u>\$ 102,065</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as a percentage of total outgo	24.55%	20.83%	32.13%	33.85%
Total long-term debt	\$ 472,426	\$ 494,581	\$ 324,490	\$ 325,888
Average daily attendance at P-2	128	127	119	121

This schedule discloses the District's financial trends by displaying past fiscal years' data along with current fiscal 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.

The General Fund balance has decreased by \$5,209 over the past two fiscal years. The fiscal year 2014-15 budget projects an increase of \$121,729. For a District this size, the State recommends available reserve of at least 5 percent of total general fund expenditures, transfers, and other uses (total outgo).

The District has incurred an operating surplus in one of the past three fiscal years, and anticipates incurring an operating surplus in the 2014-15 fiscal year. Total long-term debt has increase by \$168,693 over the past two fiscal years.

Average daily attendance has increased by 6 over the past two fiscal years. An increase of 1 ADA is anticipated during the fiscal year 2014-15.

**Notes**

1. General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund as required by GASB Statement No. 54.
2. Available reserves consist of all unassigned fund balances and reserved for economic uncertainties contained within the General Fund and the Special Reserve Fund.
3. Budget 2015 is included for analytical purposes only and has not been subjected to audit.

**MISSION UNION SCHOOL DISTRICT**  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal programs:</b>			
U.S. Department of Education:			
Passed through California			
Department of Education (CDE):			
Special education	84.027	13379	\$ 3,321
Improving teacher quality	84.367	14341	2,945
Rural and low income school program	84.365	14356	<u>18,742</u>
Total expenditures of federal awards			<u><u>\$ 25,008</u></u>

The accompanying notes are an integral part of this schedule.

**MISSION UNION SCHOOL DISTRICT**  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mission Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with State requirements, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**MISSION UNION SCHOOL DISTRICT**

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
JUNE 30, 2014

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Special Reserve Fund</u>
June 30, 2014, annual financial and budget report fund balances	\$ 268,204	\$ 92,973	\$ 124,563
Understatement of accounts payable	<u>(16,406)</u>		
June 30, 2014, audited financial statements fund balances	<u>\$ 251,798</u>	<u>\$ 92,973</u>	<u>\$ 124,563</u>

	<u>Long-Term Debt</u>
June 30, 2014, annual financial and budget report total liabilities	\$ 323,092
Understatement of capital lease payable	169,992
Understatement of OPEB payable	<u>1,497</u>
June 30, 2014, audited financial statements long-term debt total liabilities	<u>\$ 494,581</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities of the long-term debt as reported on the annual financial and budget report to the audited financial statements.

Capital Facilities Fund	Bond Interest and Redemption Fund	County School Facilities Fund
\$ 2,039	\$ 29,203	\$ 441,494
<u>\$ 2,039</u>	<u>\$ 29,203</u>	<u>\$ 441,494</u>



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**  
RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

2400 PROFESSIONAL PARKWAY, STE. 205  
SANTA MARIA, CA 93455  
TEL: 805.925.2579  
FAX: 805.925.2147  
www.mlhcpas.com

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

Board of Trustees  
Mission Union School District  
Soledad, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mission Union 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, and have issued our report thereon dated December 10, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-1 that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

## Mission Union School District's Response to Findings

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

### Purpose of this Report

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

*Moss, Remy & Hartgen LLP*

Santa Maria, California  
December 10, 2014



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

2400 PROFESSIONAL PARKWAY, STE. 205
SANTA MARIA, CA 93455
TEL: 805.925.2579
FAX: 805.925.2147
www.mlhcpas.com

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Mission Union School District
Soledad, California

Report on State Compliance

We have audited the Mission Union School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14, published by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2014.

Management's Responsibility for State Compliance

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Mission Union School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14, published by the California Education Audit Appeals Panel. Those standards and audit guide 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 direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Table with 3 columns: Description, in Panel's Audit Guide, and Procedures Performed. Rows include Attendance accounting (Attendance reporting, Teacher certification and misassignments, Kindergarten continuance, Independent study, Continuation education), Instructional time for school districts, Instructional materials, general requirements, Ratios of administrative employees to teachers, Classroom teacher salaries, and Early retirement incentive.

<u>Description</u>	<u>in Panel's Audit Guide</u>	<u>Procedures Performed</u>
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	Yes
After school education and safety program:		
General requirements	4	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Education protection account funds	1	Yes
Common core implementation funds	3	Yes
Unduplicated local control funding pupil counts	3	Yes
Charter schools		
Contemporaneous records of attendance	8	Not applicable
Mode of instruction	1	Not applicable
Nonclassroom-based instruction/independent study	15	Not applicable
Determination of funding for nonclassroom-based study	3	Not applicable
Annual instruction minutes – classroom based	4	Not applicable
Facility grant program	1	Not applicable

**Opinion on State Compliance**

In our opinion, the Mission Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the fiscal year ended June 30, 2014.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of all the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-14*, published by the Education Audit Appeals Panel in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss, Levy & Haugheim LLP*

Santa Maria, California  
December 10, 2014

The term "not applicable" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

**THIS PAGE INTENTIONALLY LEFT BLANK.**

**FINDINGS AND RECOMMENDATIONS SECTION**



**MISSION UNION SCHOOL DISTRICT**  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 JUNE 30, 2014

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses identified?	_____ Yes	<u>  X  </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u>  X  </u> Yes	_____ None reported
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No

State Awards

Any audit findings disclosed that are required to be reported in accordance with Standards and Procedures for Audits of California K-12 Local Education Agencies?	_____ Yes	<u>  X  </u> No
---	-----------	-----------------

Type of auditors’ report issued on compliance for state programs:	<u>Unmodified</u>
---	-------------------

**MISSION UNION SCHOOL DISTRICT**  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014

**Section II – Financial Statement Findings**

**FINDING 2014-1**  
**ACCOUNTS PAYABLE**  
**30000**

**Criteria:**

An annual review of expenditures paid after the end of the fiscal year should be done in order to ensure accurate accruals of accounts payable by observing the expenditures and deciding whether they belong in the current fiscal year or should be accrued to the prior year.

**Condition:**

Some invoices of significant amounts were not accrued as accounts payable and expenditures at June 30, 2014.

**Cause:**

District oversight.

**Effect:**

Understatement of payables and expenditures.

**Recommendation:**

Controls should be implemented to monitor cut-off dates so that all liabilities and expenditures are recorded in the proper period.

**District's Corrective Action Plan:**

All summer projects will be scheduled for after July 1, to ensure expenditures are recorded in the proper period.

**MISSION UNION SCHOOL DISTRICT**  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014

**Section III – State Award Findings and Questioned Costs**

There were no State Award findings and questioned costs.

**MISSION UNION SCHOOL DISTRICT**

SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014

**Section II – Financial Statements Findings**

There were no financial statement findings and questioned costs.

**MISSION UNION SCHOOL DISTRICT**

SCHEDULE OF PRIOR FISCAL YEAR AUDIT FINDINGS AND QUESTIONED COSTS  
 JUNE 30, 2014

**Section III – State Award Findings and Questioned Costs**

**FINDING 2013-1**  
**CLASS SIZE REDUCTION**  
 40000

**Criteria:**

Per *Education Code* Section 52124.5, Districts should compute class size by averaging the daily enrollment in each class for each instructional day from the first day of instruction through April 15.

**Condition:**

The District used the attendance number rather than the enrollment number.

**Effect:**

The District underreported 1<sup>st</sup> Grade by 1.

Grade	<u>Originally Submitted</u>		<u>Per Corrected</u>	
	Number of classes of each size	Total pupils per class size	Number of classes of each size	Total pupils per class size
1	1	18	1	19
2	1	14	1	14
Total	2	32	4	33
Total Classes		2		2
Total Eligible Pupils		32		33
Avg. Pupils per Class		16		16.50
Total Apportionment		\$34,272		\$35,343

**Cause:**

District Oversight.

**Questioned Costs:**

1 Pupil at \$1,071 per pupil

**Recommendation:**

The District should ensure that the J-7 is properly reported.

**District's Corrective Action Plan:**

The District will employ a secondary check of the J-7 by the District's external accounting consultant to ensure accurate reporting.

**Current Status:**

Implemented.

