

VISALIA UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

VISALIA UNIFIED SCHOOL DISTRICT
OF TULARE COUNTY
VISALIA, CALIFORNIA
JUNE 30, 2008

GOVERNING BOARD

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**VISALIA UNIFIED SCHOOL DISTRICT
JUNE 30, 2008**

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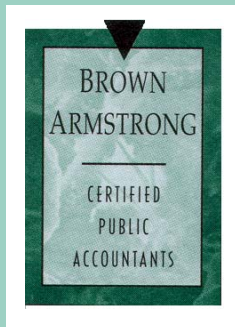
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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Governing Board
Visalia Unified School District
Visalia, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Visalia Unified School District (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the notes to the financial statements, the District adopted the provisions of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 50, *Pension Disclosures*.

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 Visalia Unified School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, on our consideration of Visalia Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 12 and budgetary comparison information on page 48, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Visalia Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, the Combining Statements – Non-Major Governmental Funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on it.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "B. A. Paulden", is written over the printed name of the firm.

Bakersfield, California
December 10, 2008

**VISALIA UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

This section of Visalia Unified School District's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Visalia Unified School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34. The report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

District-Wide Statements

The *District-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting, which is intended to be similar to those used by private sector companies. They provide both short-term and long-term information about the District's overall financial status. They present governmental activities and business-type activities separately, though our District does not have any business-type activities at this time. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Additionally, certain eliminations have occurred as prescribed by the statement in regard to interfund activity, payables and receivables.

The district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities would normally be divided into two categories:

- Governmental activities – The District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.
- Business-type activities – The District does not have any activities included here, as fees the District may charge to help it cover the costs of certain services it provides do not constitute major reportable activities.

Fund Financial Statements

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary. They focus on individual parts of the District, reporting the district's operations in more detail than the district-wide statements (which reports on the District as a whole).

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term obligations) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – These statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. They tell how basic services like regular and special education were financed in the short term as well as what remains for future spending. Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements using the economic resources measurement focus and the accrual basis of accounting. They offer short and long term financial information about the activity the District operates like a business.

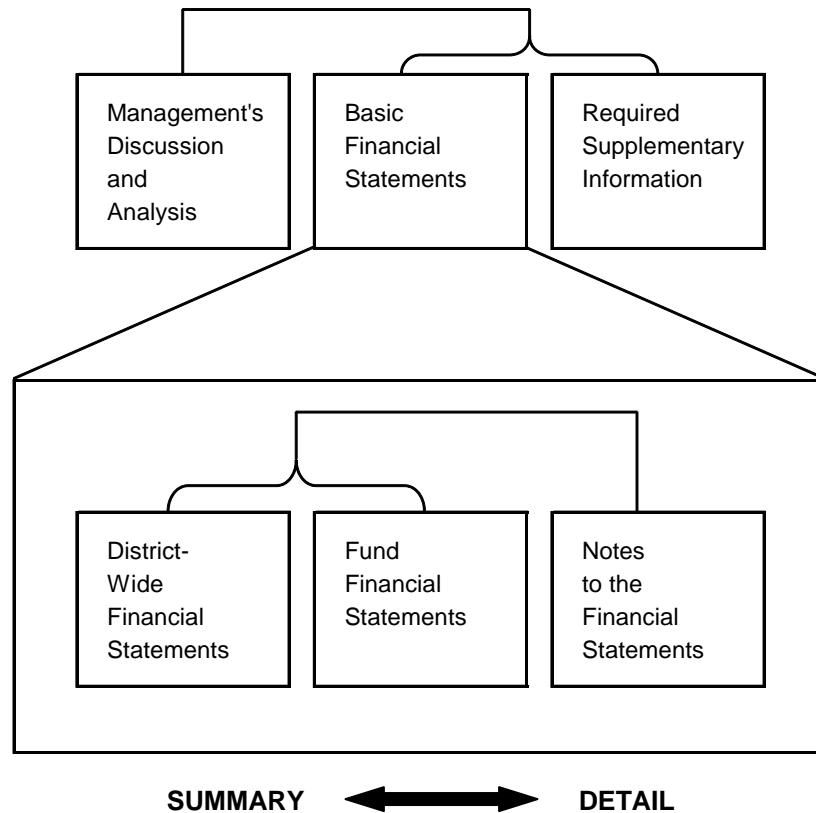
Our District does not utilize enterprise funds (one type of proprietary fund) at this time, which are the same as business-type activities. We do, however, use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the employee insurance fund.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, in this case, the student activities (agency) funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong, which are the student bodies. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets, which only report a balance sheet and do not have a measurement focus. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information of the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Organization of Visalia Unified's Annual Financial Report**



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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The District's overall financial status continued to improve this year, but this is in the face of dire fiscal predictions for future years in the state of California. The District Reserve for Economic Uncertainties increased from over 5% to 8.5%. The increase in the costs of health care was in the single digits for 2007-08, and thus more manageable for the District. Total District net assets increased by \$39.9 million over the course of the year, due to increases in fixed assets of \$8.8 million (equipment and building projects) and an increase of \$29.7 million in construction in progress.
- Overall revenues were over \$267 million for the current year, as compared to overall revenues of \$246 million in the prior year, up nearly 8.5 percent. (The General Fund had a \$1.9 million increase in gross revenues. General Fund revenues for the current year were \$14 million more than basic expenditures; \$215 million revenues compared to \$201 million in basic expenditures.)
- The overall cost of basic expenditures (all funds) increased by 30 percent to \$287 million. The main reason for the increase was due to the capital outlay for the two new elementary schools in 2007-08.
- Outlays for new capital assets were larger this year as the District spent \$28.5 million dollars for continued construction of two new elementary schools, \$4 million on the Highland Elementary multipurpose facility and offices, \$1.7 million on Mount Whitney High School new classroom wings, and \$450 thousand on a new weight/PE room at Golden West.
- Enrollment continued to increase this year. CBEDS enrollment was up 314 from the prior year. In addition, the Average Daily Attendance (ADA) was up by 285, as the District-wide attendance percentage remained strong. This was due to the continued success of the District "attendance incentive" program.

- Growth in the City of Visalia has slowed substantially in 2007-08, which correlates to the District's revenues from Developer Fee Funds. Developer fees were increased last year to new level 2 rates of \$3.48 per square foot from \$3.08 per square foot. This increase was reviewed and supported by the local Home Builders Association (HBA) to help promote quality school facilities in our growing community. The pace of new residential growth has slowed this year and developer fee revenues declined \$3M, or 37%, which was anticipated by the District. Another 57% decline is anticipated for 2008-09 due to the severe decline in new housing starts.
- As a result of the area's continued growth, property tax revenues have also increased somewhat. These, however, do not increase our overall revenue, but rather decrease our state aid in a proportional amount. For 2008-09, the property tax revenues are anticipated to decline.
- The financial status of the State of California continues to rapidly decline as a result of the economy, tightening credit, and loss in revenues due to the recession. This affects our expectations of future funding. The State has passed a new budget for the 2008-09 fiscal year which includes a minimal COLA and continued ongoing categorical funding. However, it is anticipated that the state will take back the COLA and additional funding through mid-year reductions. The District has prepared a balanced budget for the new year based upon zero COLA, and has successfully addressed increasing health insurance costs for 2008-09. The State's new budget continues to add to the growing State budget deficit, which will affect the future funding of education. The District anticipates severe reductions in funding for future years, and will plan reductions accordingly to retain a balanced budget.
- The District did not issue any new debt in 2007-08 (other than small capital leases). The District's overall debt ratio continues to be very low.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, we report only the District's Governmental activities, as the District does not have any Business-type activities. All of the District's services are reported in this category, and include the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

A more detailed analysis of the District's net assets and changes in net assets follows:

Net assets. The District's combined net assets were \$262 million for the fiscal year ended June 30, 2008, and \$222 million for the fiscal year ended June 30, 2007; an increase of \$40 million (Table A-1). This increase in the District's financial position came from its governmental activities, and was due primarily to the increase in capital assets as school facilities projects were completed.

Table A-1
Net Assets

(Amounts in millions)	Governmental Activities		Dollar Change 2008-2007	Total Percentage Change 2008-2007
	2008	2007		
Current and other assets	\$ 102.3	\$ 97.0	\$ 5.3	5.46%
Capital assets (less depreciation)	220.2	188.2	32.0	17.00%
Total Assets	322.5	285.2	37.3	13.08%
Current liabilities	20.9	19.4	1.5	7.73%
Long-term liabilities	39.5	43.6	(4.1)	-9.40%
Total Liabilities	60.4	63.0	(2.6)	-4.13%
Net assets				
Invested in capital assets, net of related debt	181.0	145.7	35.3	24.23%
Restricted	53.5	52.4	1.1	2.10%
Unrestricted	27.6	24.1	3.5	14.52%
Total Net Assets	\$ 262.1	\$ 222.2	\$ 39.9	17.96%

The \$27.6 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

The results of this year's operations for the District as a whole are reported in the Statement of Activities that can be found in the Basic Financial Statements Section of this document. Table A-2 takes the information from the Statement, rounds the numbers, and rearranges them slightly so the reader can see the District's total revenues for the year.

Changes in net assets. The District's total revenues increased from \$245.6 million at June 30, 2007, to \$267.4 million at June 30, 2008, an increase of 8.5 percent (Table A-2).

The total cost of all programs and services increased 4 percent from \$218.4 million at June 30, 2007, to \$227.5 million at June 30, 2008. The majority of the District's expenses relate to educating students (73 percent). The purely administrative activities of the District accounted for just 4 percent of total costs.

Total revenues surpassed expenses, increasing net assets \$39.9 million over last year. The governmental activities led to the District's increased fiscal status with the General Fund's surplus of revenues over expenditures of \$14 million. The State's budget crisis and the District's increasing costs may result in planned deficit spending in future years, until appropriate District budget reductions are implemented.

Table A-2
Changes in Net Assets

(Amounts in millions)

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2008	2007	2008-2007	2008-2007
Revenues				
General revenues:				
Federal and State aid not restricted	\$ 135.0	\$ 130.9	\$ 4.1	3.13%
Charges for services	4.9	3.8	1.1	28.95%
Operating grants and contributions	63.3	62.8	0.5	0.80%
Capital grants and contributions	21.9	0.5	21.4	4280.00%
Tax revenues	29.9	25.6	4.3	16.80%
Other local sources	12.4	22.0	(9.6)	-43.64%
Total Revenues	267.4	245.6	21.8	8.88%
Expenses				
Instruction related	166.2	157.5	8.7	5.52%
Student support services	19.9	18.5	1.4	7.57%
Administration	9.9	10.1	(0.2)	-1.98%
Maintenance and operations	25.4	23.6	1.8	7.63%
Other	6.1	8.7	(2.6)	-29.89%
Total Expenses	227.5	218.4	9.1	4.17%
Excess (Deficiency)	39.9	27.2	12.7	46.69%
Change in Net Assets	\$ 39.9	\$ 27.2	\$ 12.7	46.69%

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

In Table A-3, the net cost of each of the District's seven largest functions is presented below. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table A-3
Net Cost of Governmental Activities

(Dollar amounts in millions)

	Net Cost of Services			
	2008	2007	\$ Change	% Change
Instruction	\$ 79.7	\$ 94.3	\$ (14.6)	-15.48%
Instruction related activities (supervision, library and media)	15.8	15.1	0.7	4.64%
Other pupil services	4.4	3.9	0.5	12.82%
Food services	0.5	0.5	-	0.00%
Pupil transportation	2.6	2.4	0.2	8.33%
General administration	7.4	6.7	0.7	10.45%
Maintenance and operations (plant services)	23.8	22.0	1.8	8.18%
Other	3.2	6.4	(3.2)	-50.00%
Totals	<u>\$ 137.4</u>	<u>\$ 151.3</u>	<u>\$ (13.9)</u>	<u>-9.19%</u>

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$72.9 million, while the prior year reported a balance of \$67.1 million, which is a net increase of \$5.8 million from last year.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased by \$6.4 million.
- b. Our Special Revenue funds balance increased by \$4.5 million.
- c. The debt service funds remained fairly stable from the prior year.
- d. The capital projects funds decreased \$5.1 million from the prior year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final revision to the budget was adopted on October 28, 2008 (a General Fund Budgetary Comparison Schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report in the required supplementary information section).

- Minimal revenue and expenditure revisions were made to the 2007-08 budget in order to accommodate increased attendance percentages (higher than projected). As a result, Revenue Limit ADA calculations were increased by 36 ADA during the year.
- Special Education costs remained stable during the year.
- Additional funding was budgeted in the amount of \$1 million from SELPA (local special education) funding and \$3 million from Federal No Child Left Behind funding.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$188.2 million (after depreciation) in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2008, the total net fixed assets totaled \$220.2 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$32 million or 17 percent, from last year, primarily due to the construction of two new elementary schools.

Table 4
Capital Assets at Year-end
(Net of depreciation, in millions of dollars)

(Amounts in millions)

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2008	2007	2008-2007	2008-2007
Land	\$ 15.9	\$ 15.9	\$ -	0.00%
Construction in progress	40.6	10.8	29.8	275.93%
Buildings and improvements	156.8	154.9	1.9	1.23%
Equipment	6.9	6.6	0.3	4.55%
Totals	\$ 220.2	\$ 188.2	\$ 32.0	17.00%

Long-Term Obligations

At the end of this year, the District had \$44.5 million in long-term obligations outstanding versus \$43.6 million last year, a decrease of 8 percent. The District's obligations consisted of:

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2008	2007	2008-2007	2008-2007
General obligation bonds	\$ 26.2	\$ 28.9	\$ (2.7)	-9.34%
Certificates of participation	10.5	11.0	(0.5)	-4.55%
Capitalized lease obligations	2.2	2.2	-	0.00%
Other Post Employment Benefits Liability	4.3	-	4.3	N/A
Other	1.3	1.5	(0.2)	-13.33%
Totals	<u>\$ 44.5</u>	<u>\$ 43.6</u>	<u>\$ 0.9</u>	<u>2.06%</u>

The District's general obligation bond rating continues to be "AAA", the best possible rating. The State limits the amount of general obligation debt that District's can issue per Education Code Section 15106 to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$26.2 million is below the statutorily-imposed limit.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term liabilities in the Notes to the Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-2008 ARE NOTED BELOW:

The District was able to complete several facilities projects throughout the District. Manuel F. Hernandez Elementary in the northwest quadrant and Annie R. Mitchell Elementary in the southeast quadrant were completed and opened in August 2008. These two new elementaries have relieved overcrowding, especially in the northwest quadrant of the city, where large enrollment growth continues to occur.

VUSD is proud to have raised the district-wide state API score to 735 and to have more elementaries move out of Program Improvement Status.

VUSD has implemented after school programs (After School Education and Safety) at three of our middle schools. This program provides a safe and enjoyable environment for both educational and recreational activities, and partners with four different community agencies to bring these services to our students.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2008-09 year, the District Board and management have been able to build a balanced budget which maintains status quo salary and benefits for all units. The State is facing an unprecedented fiscal crisis and anticipates drastic reductions in state revenues from previous years. The state will most likely implement mid-year budget cuts, and will also reduce funding for the 2009-10 budget year. The State has issued a COLA of 5.66% for 2008-09, however, only .68% was funded, and that will soon be reduced to zero with midyear reductions. Out-year forecasts are for zero funded COLA's in 2009-10 and 2010-11. Districts will need to budget wisely and most likely implement budget reductions to maintain balanced budgets in out-years. In addition, the federal government has not kept pace with the COLA's for federal educational funding, and may also implement funding reductions in future years.

The key assumptions in our revenue forecast are:

1. Zero COLA (and no Deficit Reduction or Equalization Aid)
2. Property tax revenue will remain flat due to small decreases in assessed valuations.
3. State aid revenue will increase proportionally to the property tax increase. The State Revenue Limit will be \$5800 for 2008-09 (assuming a midyear budget reduction of .68% COLA).
4. K-12 Average Daily Attendance (ADA) is budgeted to increase by 75 to 25,273. However, District growth indicates the ADA increase will be closer to 250, and the budget will be revised accordingly at the second interim.
5. State lottery is expected to slightly increase and is currently at \$137 per ADA (\$131 per ADA in 07-08), with \$19 of that restricted for instructional materials.
6. Developer fees are expected to continue to decrease reflecting the slowing of new housing unit development in the community.

Expenditures are based on the following assumptions:

1. Certificated salary step and column increases are fully budgeted at \$1.8 million.
2. Classified salary step and longevity increases are budgeted at \$591,000.
3. Management salary step and column increases are budgeted at \$322,500.
4. Health care costs per employee will be paid by the District as negotiated. The annual cost of health care coverage will be \$11,200 (average) per employee.
5. Additional Teachers for Growth are budgeted at \$200,000.
6. Increased contributions to transportation, nutritional services, and class size reduction are budgeted at \$580,000.
7. Other increased administrative costs, equipment costs, and program staffing costs are budgeted at \$300,000.

The 2008-09 budget was developed in a timely manner even though the State passed a balanced budget eighty five days late. Budget development was somewhat challenging due to unsettled labor negotiation contracts. Due to the timing of negotiations, the budget was balanced and adopted based on the best information at the time and fully paying for anticipated increases including step and column, step and longevity, previously negotiated health care cost increases, and setting aside enough money to fund anticipated salary and health benefit offers. District budgeting continues to be a very challenging process in light of the state budget crisis. The District currently has settled with the classified unit and with management for 2008-09, but is in the middle of negotiations with the certificated unit for the new year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Administrative Services, at Visalia Unified School District, 5000 Cypress Avenue, Visalia, California, 93277, or e-mail at rgroeber@visalia.k12.ca.us.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Investments	\$ 73,486,741
Accounts Receivable	28,783,345
Stores Inventory	68,541
Land	15,930,501
Buildings and Improvements	220,687,902
Equipment	18,867,145
Construction in Progress	40,570,489
Less: Accumulated Depreciation	<u>(75,836,128)</u>
TOTAL ASSETS	<u>322,558,536</u>
<u>LIABILITIES</u>	
Accounts Payable and Other Accrued Liabilities	12,232,267
Unearned Revenue	3,608,363
Long Term Liabilities:	
Due Within One Year	
Certificates of Participation Payable	580,000
Compensated Absences Payable	999,098
Bonds Payable	2,810,000
Capital Leases Payable	657,241
Loan Payable	52,000
Due After One Year	
Certificates of Participation Payable	9,960,000
Bonds Payable	23,430,000
Capital Leases Payable	1,568,621
Loan Payable	208,000
Other Post Employment Benefits Liability	<u>4,339,420</u>
TOTAL LIABILITIES	<u>60,445,010</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	180,954,047
Restricted for:	
Capital Projects	16,773,861
Debt Service	7,857,653
Educational Programs	18,260,970
Special Revenues	10,667,438
Unrestricted	<u>27,599,557</u>
TOTAL NET ASSETS	<u><u>\$ 262,113,526</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions	Expenses	Program Revenues			Net (Expense) and Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 140,590,818	\$ 1,705,997	\$ 37,211,386	\$ 21,962,122	\$ (79,711,313)
Instruction-related services:					
Supervision of instruction	6,128,012	38,143	5,046,542	-	(1,043,327)
Instructional library, media and technology	1,738,292	70	1,111,398	-	(626,824)
School site administration	17,702,462	25,470	3,556,237	-	(14,120,755)
Pupil services:					
Home-to-school transportation	5,085,894	787,295	1,665,265	-	(2,633,334)
Food services	8,757,352	2,068,988	6,178,188	-	(510,176)
All other pupil services	6,042,998	26,376	1,597,366	-	(4,419,256)
General administration:					
Centralized data processing	2,142,823	-	17,668	-	(2,125,155)
All other general administration	7,837,699	155,236	2,458,246	-	(5,224,217)
Plant services	25,357,677	18,873	1,569,826	-	(23,768,978)
Ancillary services	2,587,450	-	650,160	-	(1,937,290)
Enterprise activities:	4,675	-	-	-	(4,675)
Interest on long-term debt	1,773,264	-	-	-	(1,773,264)
Other outgo	1,794,813	72,534	2,232,600	-	510,321
Totals	\$ 227,544,229	\$ 4,898,982	\$ 63,294,882	\$ 21,962,122	(137,388,243)

General revenues:

Taxes and subventions:

Taxes levied for general purposes	25,578,564
Taxes levied for debt service	3,620,458
Taxes levied for other specific purposes	735,388
Federal and state aid not restricted to specific purposes	134,963,114
Interest and investment earnings	3,647,575
Interagency revenues	22,818
Miscellaneous	8,729,651

Total General Revenue and Transfers

177,297,568

Change in Net Assets

39,909,325

Net Assets Beginning

222,204,201

Net Assets Ending

\$ 262,113,526

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

FUND FINANCIAL STATEMENTS

**VISALIA UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and Investments	\$ 25,503,375	\$ 6,928,033	\$ 27,412,940	\$ 59,844,348
Receivables	23,442,038	-	2,800,382	26,242,420
Due from other funds	1,210,447	8,655	5,407,838	6,626,940
Stores inventories	13,838	-	54,703	68,541
TOTAL ASSETS	\$ 50,169,698	\$ 6,936,688	\$ 35,675,863	\$ 92,782,249
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 6,836,308	\$ 1,425,236	\$ 1,410,066	\$ 9,671,610
Due to Other Funds	3,962,197	1,461,780	1,202,963	6,626,940
Deferred Revenue	3,393,613	-	214,750	3,608,363
TOTAL LIABILITIES	14,192,118	2,887,016	2,827,779	19,906,913
FUND BALANCES				
Reserved for:				
Revolving Cash	40,343	-	54,703	95,046
Stores Inventories	13,838	-	-	13,838
Debt Service	-	-	1,598,802	1,598,802
State Apportionment	2,935,397	-	-	2,935,397
Entitlements	14,867,353	-	-	14,867,353
Unreserved:				
Designated for Economic Uncertainties	17,820,604	-	619,463	18,440,067
Undesignated, Reported in:				
General Fund	300,045	-	-	300,045
Special Revenue Funds	-	-	9,993,272	9,993,272
Debt Service Funds	-	-	7,857,655	7,857,655
Capital Projects Funds	-	4,049,672	12,724,189	16,773,861
TOTAL FUND BALANCES	35,977,580	4,049,672	32,848,084	72,875,336
TOTAL LIABILITIES AND FUND BALANCES	\$ 50,169,698	\$ 6,936,688	\$ 35,675,863	\$ 92,782,249

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

**VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

Total Fund Balances - Governmental Funds \$ 72,875,336

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$296,056,037, and the accumulated depreciation is \$75,836,128. 220,219,909

An internal service fund is used by the district's management to charge the costs of workers' compensation and health insurance claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 13,622,659

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General Obligation Bonds	\$ (26,240,000)	
Certificates of Participation	(10,540,000)	
Capital Leases Payable	(2,225,862)	
Compensated Absences	(999,096)	
Child Care Revolving Loan	(260,000)	
Other Postemployment Benefits	(4,339,420)	(44,604,378)

Total Net Assets - Governmental Activities \$ 262,113,526

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Revenue Limit Sources:				
State Apportionments	\$ 147,821,437	\$ -	\$ -	\$ 147,821,437
Federal Revenues	16,963,072	-	6,281,941	23,245,013
Other State Revenues	32,320,968	21,962,122	8,469,848	62,752,938
Other Local Revenues	18,450,733	290,268	14,892,978	33,633,979
TOTAL REVENUES	215,556,210	22,252,390	29,644,767	267,453,367
EXPENDITURES				
Instruction	129,146,511	-	5,473,217	134,619,728
Instruction - Related Services	24,608,118	-	1,420,189	26,028,307
Pupil Services	10,940,902	-	8,714,622	19,655,524
Ancillary Services	2,565,316	-	-	2,565,316
General Administration	8,677,804	-	888,236	9,566,040
Plant Services	22,924,315	20,057,555	19,463,950	62,445,820
Other Outgo	2,421,398	-	4,927,236	7,348,634
TOTAL EXPENDITURES	201,284,364	20,057,555	40,887,450	262,229,369
Excess (Deficiency) of Revenues Over Expenditures	14,271,846	2,194,835	(11,242,683)	5,223,998
OTHER FINANCING SOURCES (USES)				
Other Sources	503,916	-	191	504,107
Transfers In	24	-	8,369,800	8,369,824
Transfers Out	(8,369,800)	-	(24)	(8,369,824)
TOTAL OTHER FINANCING SOURCES (USES)	(7,865,860)	-	8,369,967	504,107
Net Change in Fund Balances	6,405,986	2,194,835	(2,872,716)	5,728,105
Fund Balances at Beginning of Year	29,571,594	1,854,837	35,720,800	67,147,231
Fund Balances at End of Year	\$ 35,977,580	\$ 4,049,672	\$ 32,848,084	\$ 72,875,336

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

**VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Total Net Change in Fund Balances - Governmental Funds \$ 5,728,105

Amounts reported for governmental activities in the statement of activities are difference because:

Capital outlays 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 capital outlay exceeded depreciation in the current period.

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

Depreciation Expense	\$ (6,883,360)	
Capital Outlays	<u>38,967,612</u>	32,084,252

Proceeds from disposal of capital assets are reported as revenue in the governmental funds, but only the gain or loss is reported in the statement of activities. This is the amount of difference between the proceeds and the resulting gain or loss. (32,118)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not affect the statements of activities:

General Obligation Bonds		2,665,000
Capital Lease Obligations		459,623
Certificates of Participation		510,000
Child Care Revolving Loans		52,000

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (503,916)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (4,339,420)

Compensated absences are measured by the amounts paid during the period in Governmental funds. In the statement of activities, compensated absences are measured by the amount earned. 126,571

An internal service fund is used by the district's management to charge the costs of workers' compensation and health insurance claims to the individual funds. The net income of the internal service fund is reported with governmental activities. 3,159,228

Change in Net Assets of Governmental Activities \$ 39,909,325

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Governmental Activities - Internal Service Fund</u>
<u>ASSETS</u>	
Current Assets	
Cash and Investments	\$ 13,642,393
Receivables	<u>2,540,925</u>
Total Assets	<u>16,183,318</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	<u>2,560,659</u>
Total Current Liabilities	<u>2,560,659</u>
 Net Assets	
Unrestricted	<u>13,622,659</u>
Total Net Assets	<u><u>\$ 13,622,659</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
<u>OPERATING REVENUES</u>	
Charges to other funds and miscellaneous revenues	\$ 27,844,466
Total Operating Revenues	<u>27,844,466</u>
<u>OPERATING EXPENSES</u>	
Payroll costs	218,580
Professional and contract services	24,614,339
Supplies and materials	6,184
Total Operating Expenses	<u>24,839,103</u>
Operating Income (Loss)	3,005,363
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>153,865</u>
Change in Net Assets	3,159,228
Total Net Assets - Beginning	<u>10,463,431</u>
Total Net Assets - Ending	<u>\$ 13,622,659</u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Governmental Activities - Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from User Charges	\$ 3,035,007
Cash (Payments) to Other Operating Expenses	<u>(2,480,855)</u>
Cash Flows from Operating Activities	<u>554,152</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>153,864</u>
Cash Flows from Investing Activities	<u>153,864</u>
Net Cash Flows	708,016
Cash and Investments at Beginning of Year	<u>12,934,377</u>
Cash and Investments at End of Year	<u><u>\$ 13,642,393</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 3,005,363
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Net Change in Assets and Liabilities:	
Accounts and Interest Receivable	(2,480,775)
Accounts Payable	2,549,147
Due to	(80)
Liability for Self-Insurance Claims	<u>(2,519,503)</u>
Cash Flows from Operating Activities	<u><u>\$ 554,152</u></u>

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

**VISALIA UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	Agency Funds
ASSETS	
Deposits and investments	\$ 13,152,788
Cash awaiting deposit	11,697
Total Assets	\$ 13,164,485
LIABILITIES	
Due to student groups	\$ 12,946,427
Outstanding warrants	218,058
Total Liabilities	\$ 13,164,485

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

**VISALIA UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Visalia Unified School District was organized in 1885 and became unified on July 1, 1966, under the laws of the State of California. The District operates under a locally-elected, seven-member Board form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District operates twenty-four elementary, four middle, four high schools, an adult school, a continuation high school, and three charter schools.

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

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District and the administration of the charter schools.

Facilities Corporation: The Visalia Unified School District Financing Corporation's (the Corporation) financial activity is presented in the financial statements as a Capital Projects Fund and a Debt Service Fund, both of which are non-major funds. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

Charter School: The District has approved charters for the Charter Home, Charter Alternatives and Charter Independent Study charter schools pursuant to Education Code Section 47605. The Charter Home, Charter Alternatives, and Charter Independent Study charter schools are operated by the District, and their financial activities are presented in the District's General Fund. The District receives revenue on behalf of the Charter Home, Charter Alternatives, and Charter Independent Study charter schools. This activity is accounted for in the General Fund as site contributions for each of the three charter schools.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with five public entity risk pools and one Joint Powers Agency. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 16 to the financial statements. These organizations are:

Schools Excess Liability Fund
Self-Insured Schools of California III
Tulare County Schools Insurance Group
Tulare County School Districts' Self Insurance Authority
Nor-Cal Relief
Visalia Civic Facilities Authority

D. Basis of Presentation – Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation – Fund Accounting (Continued)

Special Reserve for Postemployment Benefits Fund The Special Reserve for Postemployment Benefits Fund is used to accumulate funds set aside by the governing board for funding future health and welfare benefits.

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Debt Service Fund The Debt Service Fund is used to track the accumulation of funds to pay the District's Tax Revenue Anticipation Notes and Certificates of Participation.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

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

State School Building Lease-Purchase Fund The State School Building Lease-Purchase Fund is used primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund is used to account for funds set aside for Board designated construction projects.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self Insurance Program that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is agency funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency Fund accounts for student body activities (ASB) and the revolving cash clearing accounts for the general and payroll warrants.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting – Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

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

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting – Measurement Focus (Continued)

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

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

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

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

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

F. Cash and Cash Equivalents

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

G. Investments

Investments held at June 30, 2008 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and SISC investment pools are determined by the program sponsor.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Debt Service Fund represent cash and cash equivalents required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the Certificates of Participation

I. Stores Inventory

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment and \$15,000 for buildings and improvements. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Compensated Absences

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Deferred Issuance Costs, Premiums and Discounts

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

O. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$53,559,922 of restricted net assets, of which \$43,566,650 is restricted by enabling legislation.

Q. Operating Revenues and Expenses

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Interfund Activity

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

S. Estimates

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

T. Budgetary Data

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

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

U. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Tulare bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

V. New Accounting Pronouncements

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* effective for the year ended June 30, 2008. This statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Note 13 shows the disclosures as required by GASB Statement No. 45.

During the fiscal year ended June 30, 2008, the District was also required to implement GASB Statement No. 50, *Pension Disclosures*, which amends existing accounting guidance under GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB), as discussed above. Note 12 shows the disclosures as required by GASB Statement No. 50.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 73,486,741
Fiduciary funds	<u>13,164,485</u>
Total Deposits and Investments	<u><u>\$ 86,651,226</u></u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 1,279,504
Cash in revolving	40,343
Cash awaiting deposit	6,086
Investments	<u>85,325,293</u>
Total Deposits and Investments	<u><u>\$ 86,651,226</u></u>

Policies and Practices

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**General Authorizations**

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Investment in the Self-Insured Schools of California Investment Pool – The District is a voluntary participant in the Self-Insured Schools of California (SISC) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by SISC for the entire SISC portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SISC, which is recorded on the amortized cost basis.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Segmented Time Distribution

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

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
SISC Insurance Pool	\$ 8,637,003	\$ 8,637,003	\$ -	\$ -	\$ -
County Pool	76,688,290	76,688,290	-	-	-
Totals	\$ 85,325,293	\$ 85,325,293	\$ -	\$ -	\$ -

Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
SISC Insurance Pool	\$ 8,637,003	N/A	\$ -	\$ -	\$ -	\$ 8,637,003
County Pool	76,688,290	N/A	-	-	-	76,688,290
Totals	\$85,325,293	N/A	\$ -	\$ -	\$ -	\$85,325,293

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Self-Insured Schools of California	Insurance Investment Pool	<u>\$ 8,637,003</u>

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**Custodial Credit Risk – Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's bank balance of \$879,501 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in U.S. Bank, Government Financial Strategies Inc., and Self-Insured Schools of California of \$8,637,003, the District has a custodial credit risk exposure of \$8,637,003 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	Governmental Funds				Total Governmental Funds
	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	
Federal Government:					
Categorical aid	\$ 5,862,145	\$ 1,822,292	\$ 7,684,437	\$ -	\$ 7,684,437
Categorical aid - prior year	-	-	-	-	-
Total Federal	5,862,145	1,822,292	7,684,437	-	7,684,437
State Government:					
Apportionment	-	-	-	-	-
Categorical aid	13,936,288	573,300	14,509,588	-	14,509,588
Lottery	1,259,935	-	1,259,935	-	1,259,935
Other state	-	-	-	-	-
Total State	15,196,223	573,300	15,769,523	-	15,769,523
Local:					
Other Local Sources	2,383,670	404,790	2,788,460	2,540,925	5,329,385
Total Accounts Receivable	\$ 23,442,038	\$ 2,800,382	\$ 26,242,420	\$ 2,540,925	\$ 28,783,345

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 15,879,031	\$ 51,470	\$ -	\$ 15,930,501
Construction in progress	<u>10,836,978</u>	<u>35,190,007</u>	<u>5,456,496</u>	<u>40,570,489</u>
 Total Capital Assets Not Being Depreciated	 <u>26,716,009</u>	 <u>35,241,477</u>	 <u>5,456,496</u>	 <u>56,500,990</u>
Capital Assets Being Depreciated				
Buildings and improvements	213,172,907	7,597,929	82,934	220,687,902
Equipment	<u>17,671,544</u>	<u>1,584,702</u>	<u>389,101</u>	<u>18,867,145</u>
 Total Capital Assets Being Depreciated	 <u>230,844,451</u>	 <u>9,182,631</u>	 <u>472,035</u>	 <u>239,555,047</u>
Less Accumulated Depreciation				
Buildings and improvements	58,294,746	5,693,049	56,645	63,931,150
Furniture and equipment	<u>11,097,939</u>	<u>1,190,311</u>	<u>383,272</u>	<u>11,904,978</u>
 Total Accumulated Depreciation	 <u>69,392,685</u>	 <u>6,883,360</u>	 <u>439,917</u>	 <u>75,836,128</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 188,167,775</u>	 <u>\$ 37,540,748</u>	 <u>\$ 5,488,614</u>	 <u>\$ 220,219,909</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 5,406,951
School site administration	344,638
Home-to-school transportation	574,778
Food services	23,050
All other general administration	248,738
Centralized data processing	<u>285,205</u>
 Total Depreciation Expenses Governmental Activities	 <u>\$ 6,883,360</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts payable between District funds for repayments of loans, charges for services, and funding transfers. Interfund receivable and payable balances at June 30, 2008, are as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$ 1,210,447	\$ 3,962,197
Adult	26,772	298,134
Cafeteria	853,730	787,081
Child Development	-	117,483
Capital Facilities	1,461,780	-
County School Facilities	8,655	1,461,780
Special Reserve - Capital Outlay	2,000,000	265
Special Reserve - Postemployment Benefits	1,065,556	-
	6,626,940	6,626,940
Total Governmental Funds	6,626,940	6,626,940
Self Insurance	-	-
	-	-
Total All Funds	\$ 6,626,940	\$ 6,626,940

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for 07/08 deferred maintenance contribution.	\$ 1,091,000
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital outlay expenses.	2,000,000
The General Fund transferred to the Special Reserve - Retiree Fund for 07-08 annual required contribution for other post employment benefits.	3,111,438
The General Fund transferred to the Debt Service Fund for certificates of participation payment.	932,019
The General Fund transferred to the Cafeteria Fund for nutritional services support.	1,235,343
The State School Fund transferred to the General Fund for interest on closed fund.	24
	24
Total	\$ 8,369,824

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 4,707,583	\$ 1,401,141	\$ 1,319,399	\$ 7,428,123	\$ 11,248	\$ 7,439,371
Deferred payroll and benefits	362,563	-	84,321	446,884	2,598	449,482
State apportionment	1,766,162	24,095	6,346	1,796,603	2,546,811	4,343,414
Total	<u>\$ 6,836,308</u>	<u>\$ 1,425,236</u>	<u>\$ 1,410,066</u>	<u>\$ 9,671,610</u>	<u>\$ 2,560,657</u>	<u>\$ 12,232,267</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,898,124	\$ 4,385	\$ 2,902,509
State categorical aid	495,489	210,365	705,854
Total	<u>\$ 3,393,613</u>	<u>\$ 214,750</u>	<u>\$ 3,608,363</u>

NOTE 8 – LONG-TERM OBLIGATIONS**Summary**

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

	Balance July 1, 2007	Additions	Adjustments/ Deductions	Balance June 30, 2008	Due Within One Year
General obligation bonds - Series A	\$ 14,090,000	\$ -	\$ 1,475,000	\$ 12,615,000	\$ 1,555,000
General obligation bonds - Series B	6,875,000	-	615,000	6,260,000	645,000
General obligation bonds - Series C	7,940,000	-	575,000	7,365,000	610,000
Refunding Certifications of Participation:					
2005 Issuance	11,050,000	-	510,000	10,540,000	580,000
Accumulated vacation - net	1,125,668	-	126,570	999,098	999,098
Capital leases	2,181,569	503,916	459,623	2,225,862	657,241
Child Care Facilities Revolving	312,000	-	52,000	260,000	52,000
Other Post Employment Benefits Liability	-	4,339,420	-	4,339,420	-
Totals	<u>\$ 43,574,237</u>	<u>\$ 4,843,336</u>	<u>\$ 3,813,193</u>	<u>\$ 44,604,380</u>	<u>\$ 5,098,339</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for the Certificates of Participation are made by the General and Capital Facilities Funds through the trustee. The accrued vacation and retiree obligations will be paid by the fund for which the employee worked. The capital leases are paid for by the General, Adult, Capital Facilities and Child Development Funds. The Child Care Facilities Revolving Loan is paid for by the Child Development Fund.

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Redeemed	Bonds Outstanding June 30, 2008
7/1/1999	A	8/1/2014	4.5-5.0%	\$ 22,500,000	\$ 14,090,000	\$ 1,475,000	\$ 12,615,000
8/1/2000	B	8/1/2016	4.5-5.0%	\$ 10,000,000	\$ 6,875,000	\$ 615,000	\$ 6,260,000
8/1/2002	C	8/1/2018	3.0-6.0%	\$ 10,000,000	\$ 7,940,000	\$ 575,000	\$ 7,365,000

Debt Service Requirements to Maturity

Series A: Fiscal Year	Interest to		Total
	Principal	Maturity	
2009	\$ 1,555,000	\$ 580,563	\$ 2,135,563
2010	1,635,000	502,656	2,137,656
2011	1,715,000	419,435	2,134,435
2012	1,795,000	336,501	2,131,501
2013	1,880,000	247,810	2,127,810
2014-2015	4,035,000	204,125	4,239,125
Total	\$ 12,615,000	\$ 2,291,090	\$ 14,906,090

Series B: Fiscal Year	Interest to		Total
	Principal	Maturity	
2009	\$ 645,000	\$ 284,631	\$ 929,631
2010	680,000	254,071	934,071
2011	725,000	221,581	946,581
2012	760,000	187,241	947,241
2013	800,000	150,665	950,665
2014-2016	2,650,000	203,083	2,853,083
Total	\$ 6,260,000	\$ 1,301,272	\$ 7,561,272

Series C: Fiscal Year	Interest to		Total
	Principal	Maturity	
2009	\$ 610,000	\$ 265,750	\$ 875,750
2010	630,000	245,600	875,600
2011	650,000	224,638	874,638
2012	680,000	202,013	882,013
2013	720,000	176,973	896,973
2014-2018	4,075,000	433,411	4,508,411
Total	\$ 7,365,000	\$ 1,548,385	\$ 8,913,385

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

Debt Service Requirements to Maturity (Continued)

Total Bonded Debt:			
Fiscal Year	Principal	Interest to Maturity	Total
2009	\$ 2,810,000	\$ 1,130,944	\$ 3,940,944
2010	2,945,000	1,002,327	3,947,327
2011	3,090,000	865,654	3,955,654
2012	3,235,000	725,755	3,960,755
2013	3,400,000	575,448	3,975,448
2014-2018	10,760,000	840,619	11,600,619
Total	\$ 26,240,000	\$ 5,140,747	\$ 31,380,747

Financing Corporation

The Visalia Unified School District issued 2005 Refunding COPS for \$11,955,000 at interest rates varying from 4.0 to 5.75 percent.

The District and City of Visalia Redevelopment Agency are required to make minimum lease payments each year, as disclosed in the following payment schedule.

Issue Date	Maturity	Interest Rates	Amount Issued	Issued Current Year	Principal Paid/Deceased - Current Year	Outstanding End of Year
2005	2007-2022	4.00-5.75%	\$ 11,955,000	\$ 11,050,000	\$ 510,000	\$ 10,540,000

The refunding COPs mature as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2009	\$ 580,000	\$ 401,744	\$ 981,744
2010	655,000	377,044	1,032,044
2011	735,000	349,244	1,084,244
2012	820,000	318,144	1,138,144
2013	910,000	283,544	1,193,544
2014-2018	5,805,000	791,430	6,596,430
2019-2022	1,035,000	84,950	1,119,950
Total	\$ 10,540,000	\$ 2,606,100	\$ 13,146,100

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$999,098.

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)**Capital Leases**

The District's liability on lease agreements with options to purchase are summarized below:

	<u>Total</u>
Balance, July 1, 2007	\$ 2,181,569
Additions	503,916
Payments	<u>459,623</u>
Balance, June 30, 2008	<u>\$ 2,225,862</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2009	\$ 657,241
2010	270,875
2011	263,875
2012	251,784
2013	195,588
2014-2016	<u>782,087</u>
Total	2,421,450
Less: Amount Representing Interest	<u>195,588</u>
Present Value of Minimum Lease Payments	<u>\$ 2,225,862</u>

Child Care Facilities Revolving Fund

The District entered into a loan agreement with the California Department of Education for \$520,000 for four additional State Preschool buildings (\$130,000 per site). These funds are for the purchase and installation of the facilities. The funds advanced under the Child Care Facilities Revolving Fund (CCFRE) shall be repaid over a ten-year period by the Child Development State Preschool Program. Currently, the District obligation on funds drawn on the revolving loan totals \$312,000.

The CCFRF minimum loan payments as follows:

<u>Year Ending June 30,</u>	<u>Payment</u>
2009	\$ 52,000
2010	52,000
2011	52,000
2012	52,000
2013	<u>52,000</u>
Total	<u>\$ 260,000</u>

NOTE 9 – FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved				
Revolving cash	\$ 40,343	\$ -	\$ 54,703	\$ 95,046
Stores inventory	13,838	-	-	13,838
Restricted programs	<u>2,935,397</u>	-	<u>1,598,802</u>	<u>4,534,199</u>
Total Reserved	<u>2,989,578</u>	-	<u>1,653,505</u>	<u>4,643,083</u>
Unreserved				
Designated				
Economic uncertainties	17,820,604	-	619,463	18,440,067
Other designation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Designated	17,820,604	-	619,463	18,440,067
Undesignated	<u>15,167,398</u>	<u>4,049,672</u>	<u>30,575,116</u>	<u>49,792,186</u>
Total Unreserved	<u>32,988,002</u>	<u>4,049,672</u>	<u>31,194,579</u>	<u>68,232,253</u>
Total	<u>\$ 35,977,580</u>	<u>\$ 4,049,672</u>	<u>\$ 32,848,084</u>	<u>\$ 72,875,336</u>

NOTE 10 – EXPENDITURES (BUDGET VERSUS ACTUAL)

As of June 30, 2008, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Major Funds	
General Fund	
Other Outgo	\$ 21,785

NOTE 11 – RISK MANAGEMENT

Description

The District's risk management activities for employee health benefits are recorded in the Internal Service Fund. District exposure to workers compensation claims and property/liability are provided for through the purchase of insurance from a joint powers entity (see Note 15).

Claims Liabilities

The District records an estimated liability for health care. Health and welfare liabilities are based on estimates of the ultimate cost of reported claims including future claim adjustment expenses and an estimate for claims incurred but not reported based on historical experience.

NOTE 11 – RISK MANAGEMENT (Continued)

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2006 to June 30, 2008:

	<u>Employee Benefits</u>
Liability Balance, July 1, 2006	\$ 2,299,299
Claims and changes in estimates	25,410,818
Claims payments	<u>(25,190,614)</u>
Liability Balance, June 30, 2007	2,519,503
Claims and changes in estimates	24,647,730
Claims payments	<u>(24,606,574)</u>
Liability Balance, June 30, 2008	<u>\$ 2,560,659</u>
Assets available to pay claims at June 30, 2008	<u>\$ 13,622,659</u>

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

The District contributes to the California 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 and disability benefits 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 STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal year ending June 30, 2008, 2007, and 2006, were \$8,122,830, \$7,854,180, and \$7,551,609, respectively, and equal 100 percent of the required contributions for each year.

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$2,232,907, \$2,626,602, and \$2,148,332, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$4,612,309 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service. Currently, 287 employees meet those eligibility requirements. The District contribution varies by bargaining unit up to 100 percent of the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, premiums are paid. During the year, expenditures of \$2,951,380 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2008, amounts to \$58,891,761. This amount was calculated based upon an actuarial valuation by Demsey Fillger and Associates dated July 1, 2008.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Plan Description (Continued)

The District's health and welfare benefit plans include medical, prescription drug, behavioral health, dental and vision benefits. The medical plan options consist of several variations of the Blue Cross Prudent Buyer Classic PPO, with prescription drug coverage carved out and provided through two Amercian Health Care plans ("100/3-15" for Certificated and Management, and "7-15/14-60" for Classified), and behavioral health provided through PacifiCare. Dental coverage is provided through Delta Dental, and vision coverage through the Vision Service Plan. All coverage except the Classified dental and vision plans are self-insured on a fully credible basis by the Self-Insured Schools of California (SISC III); the Classified dental and vision plans are self-insured on a pooled basis through California's Valued Trust (CVT).

Certificated unit members and Management employees are eligible to retire with District-paid health benefits after completing at least 15 years of District service and attaining age 55. The District's contribution is the amount contributed on behalf of active unit members, excluding life insurance, and ending at age 65. Certificated unit members working at least 50% but less than 75% full-time receive one-half the full District contribution upon retirement; under 50% full-time are not entitled to District-paid retiree benefits. Management retirees must pay an annual amount towards the costs of their health benefits.

Classified unit members are eligible to retire with District-paid health benefits after completing at least 15 years of District service and attaining age 55. The District's contribution is the amount contributed on behalf of active members, excluding life insurance, and ending at age 65. Members working at least 3 but less than 4 hours per day receive a 25% District contribution upon retirement; those working at least 4 but less than 5 hours per day receive a 50% District contribution; and those working at least 5 but less than 6 hours per day receive a 75% District contribution upon retirement.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2007-08, the Bakersfield City School District's annual OPEB cost was \$7,338,233. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008, were as follows:

Annual required contribution	\$ 7,338,233
Interest on net OPEB obligation	225,000
Adjustments to annual required contribution	<u>(272,433)</u>
Annual OPEB cost	7,290,800
Contributions made	<u>2,951,380</u>
Change in net OPEB obligation (asset)	4,339,420
Net OPEB obligation (asset) - beginning of year	<u>-</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 4,339,420</u></u>

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation (Asset)
2008	\$ 7,290,800	\$ 2,951,380	40.48%	\$ 4,339,420

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Fiscal Year 2007-08, was the year of implementation of GASB Statement No. 45 and the District has elected to implement prospectively. Therefore, prior year comparative data is unavailable. In future years, three-year trend information will be presented. The District's contributions in fiscal year 2007-08 were based on pay-as-you-go costs.

Funding Policy, Funded Status and Funding Progress

The Visalia Unified School District's required contribution is based on pay-as-you-go financing requirements. For fiscal year 2007-08, the District contributed \$2,951,380 to the plan.

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$58,891,761, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$112,489,808, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 52.35 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because 2007-08 was the year of implementation of GASB Statement No. 45 and the District elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend analysis will be presented.

Actuarial Methods and Assumptions

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

The actuarial assumptions used for rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest were based on a standard set of actuarial assumptions modified as appropriate for the District. Turnover rates were taken from a standard actuarial table, T-5, which closely matches District turnover experience. Retirement rates were also based on District experience. Healthcare inflation rates are based on actuarial analysis of recent District experience and actuarial knowledge of the general healthcare environment. The actuarial assumption to determine the cost of covering early retirees (those under the age of 65) was an age-specific claims cost matrix fitted to the average estimated equivalent one-party premium for the current retiree group. Discount rate and return on assets of 6% and 5%, respectively, were used.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2008.

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Hernandez Elementary	\$ 675,632	August 2008
Mitchell Elementary	768,864	August 2008
Highland Elementary Site Development for Administration Building	639,652	August 2008
Mount Whitney High School Locker Room Ventilation	444,901	September 2008
Total	\$ 2,529,049	

NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Excess Liability Fund (SELF), Self-Insured Schools of California III (SISC III), Tulare County Schools Insurance Group (TCSIG), the Tulare County School Districts' Self-Insurance Authority (TCSDSIA), and Nor-Cal Relief VCR) public entity risk pools. The District pays an annual premium to each entity for its excess health, workers' compensation, and property liability coverage. The relationship between the District and the pools is such that they are not component units of the District for financial reporting purposes. The District is also a member of the newly formed Visalia Civic Facilities Authority JPA. No financial transactions have occurred in the JPA as of June 30, 2008.

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

The District has appointed no board members to the governing board of SELF.

During the year ended June 30, 2008, the District made payment of \$249,698 to SELF for excess insurance coverage for liability claims beyond that which is paid by TCSDSIA.

The District has appointed no board members to the governing board of SISC III.

During the year ended June 30, 2008, the District made payment of \$25,949,448 to SISC III for health benefits.

The District has appointed one board member to the governing board of TCSIG.

During the year ended June 30, 2008, the District made payment of \$3,500,837 to TCSIG for workers' compensation insurance.

NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS (Continued)

The District has appointed one board member to the governing board of TCSDSIA.

During the year ended June 30, 2008, the District made payment of \$367,002 to TCSDSIA for property and liability damage claims.

The District has appointed no board members to the governing board of NCR.

During the year ended June 30, 2008, the District made payment of \$695,048 to NCR for excess property and liability damage claims beyond that which is paid by BMI (Buckman Mitchell), the District's consultant.

REQUIRED SUPPLEMENTARY INFORMATION

**VISALIA UNIFIED SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE (BY OBJECT)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Revenue Limit Sources	\$ 147,907,833	\$ 154,585,158	\$ 147,821,437	\$ (6,763,721)
Federal Revenues	16,086,692	26,579,880	16,963,072	(9,616,808)
Other State Revenues	27,893,565	27,014,974	32,320,968	5,305,994
Other Local Revenues	12,662,677	8,525,466	18,450,733	9,925,267
TOTAL REVENUES	204,550,767	216,705,478	215,556,210	(1,149,268)
EXPENDITURES				
Current:				
Certificated Salaries	97,914,998	102,314,970	100,570,644	1,744,326
Classified Salaries	26,116,992	27,802,369	27,657,814	144,555
Employee Benefits	41,690,099	41,320,330	39,822,808	1,497,522
Books and Supplies	10,639,395	22,945,983	13,177,932	9,768,051
Services and Other Operating Expenditures	15,560,402	19,294,839	16,623,991	2,670,848
Debt Service				
Capital Outlay	83,000	2,108,057	1,729,638	378,419
Other Outgo	2,913,582	2,399,612	2,421,397	(21,785)
Indirect/Direct Support Costs	(505,060)	(735,417)	(719,860)	(15,557)
TOTAL EXPENDITURES	194,413,408	217,450,743	201,284,364	16,166,379
Excess (Deficiency) of Revenues Over Expenditures	10,137,359	(745,265)	14,271,846	15,017,111
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	503,916	503,916
Transfers In	-	-	24	24
Transfers Out	(2,535,459)	(7,524,238)	(8,369,800)	(845,562)
TOTAL OTHER FINANCING SOURCES (USES)	(2,535,459)	(7,524,238)	(7,865,860)	(341,622)
Net Change in Fund Balances	7,601,900	(8,269,503)	6,405,986	14,675,489
Fund Balances at Beginning of Year	29,571,594	29,571,594	29,571,594	-
Fund Balances at End of Year	\$ 37,173,494	\$ 21,302,091	\$ 35,977,580	\$ 14,675,489

SUPPLEMENTARY INFORMATION – UNAUDITED

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS – UNAUDITED
JUNE 30, 2008**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and Investments	\$ 2,637,391	\$ 1,062,718	\$ 428,061	\$ 361,328
Receivables	317,417	383,174	1,699,774	-
Due from other funds	26,772	-	853,730	-
Stores inventories	-	-	54,703	-
TOTAL ASSETS	\$ 2,981,580	\$ 1,445,892	\$ 3,036,268	\$ 361,328
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 145,873	\$ 36,057	\$ 20,342	\$ 36,622
Due to Other Funds	298,134	117,483	787,081	-
Deferred Revenue	9,426	205,324	-	-
TOTAL LIABILITIES	453,433	358,864	807,423	36,622
FUND BALANCES				
Reserved for:				
Stores	-	-	54,703	-
Legally Restricted	541,949	1,056,853	-	-
Unreserved:				
Designated for Economic Uncertainties	619,463	-	-	-
Undesignated, Reported in:				
Special Revenue Funds	1,366,735	30,175	2,174,142	324,706
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
TOTAL FUND BALANCES	2,528,147	1,087,028	2,228,845	324,706
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,981,580	\$ 1,445,892	\$ 3,036,268	\$ 361,328

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET (Continued)
NON-MAJOR GOVERNMENTAL FUNDS – UNAUDITED
JUNE 30, 2008**

	Special Reserve Retiree Benefits Fund	Building Fund	Capital Facilities Fund	State School Building Fund
ASSETS				
Deposits and Investments	\$ 5,031,958	\$ 43,478	\$ 6,768,584	\$ -
Receivables	-	-	400,017	-
Due from other funds	1,065,556	-	1,461,780	-
Stores inventories	-	-	-	-
TOTAL ASSETS	\$ 6,097,514	\$ 43,478	\$ 8,630,381	\$ -
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 447	\$ 969,446	\$ -
Due to Other Funds	-	-	-	-
Deferred Revenue	-	-	-	-
TOTAL LIABILITIES	-	447	969,446	-
FUND BALANCES				
Reserved for:				
Stores	-	-	-	-
Legally Restricted	-	-	-	-
Unreserved:				
Designated for Economic Uncertainties	-	-	-	-
Undesignated, Reported in:				
Special Revenue Funds	6,097,514	-	-	-
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	43,031	7,660,935	-
TOTAL FUND BALANCES	6,097,514	43,031	7,660,935	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,097,514	\$ 43,478	\$ 8,630,381	\$ -

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET (Continued)
NON-MAJOR GOVERNMENTAL FUNDS – UNAUDITED
JUNE 30, 2008**

	<u>Special Reserve Capital Outlay Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Fund</u>
ASSETS				
Deposits and Investments	\$ 3,221,767	\$ 7,857,168	\$ 487	\$ 27,412,940
Receivables	-	-	-	2,800,382
Due from other funds	2,000,000	-	-	5,407,838
Stores inventories	-	-	-	54,703
TOTAL ASSETS	<u><u>\$ 5,221,767</u></u>	<u><u>\$ 7,857,168</u></u>	<u><u>\$ 487</u></u>	<u><u>\$ 35,675,863</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 201,280	\$ -	\$ -	\$ 1,410,067
Due to Other Funds	264	-	-	1,202,962
Deferred Revenue	-	-	-	214,750
TOTAL LIABILITIES	<u>201,544</u>	<u>-</u>	<u>-</u>	<u>2,827,779</u>
FUND BALANCES				
Reserved for:				
Stores	-	-	-	54,703
Legally Restricted	-	-	-	1,598,802
Unreserved:				
Designated for Economic Uncertainties				
	-	-	-	619,463
Undesignated, Reported in:				
Special Revenue Funds	-	-	-	9,993,272
Debt Service Funds	-	7,857,168	487	7,857,655
Capital Projects Funds	5,020,223	-	-	12,724,189
TOTAL FUND BALANCES	<u>5,020,223</u>	<u>7,857,168</u>	<u>487</u>	<u>32,848,084</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 5,221,767</u></u>	<u><u>\$ 7,857,168</u></u>	<u><u>\$ 487</u></u>	<u><u>\$ 35,675,863</u></u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS (By Object) – UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>
REVENUES				
Federal Revenues	\$ 556,681	\$ 3,464	\$ 5,721,796	\$ -
Other State Revenues	5,193,674	1,703,528	542,655	1,029,991
Other Local Revenues	876,596	37,267	2,372,625	59,395
TOTAL REVENUES	<u>6,626,951</u>	<u>1,744,259</u>	<u>8,637,076</u>	<u>1,089,386</u>
EXPENDITURES				
Current:				
Certificated Salaries	2,801,852	118,795	-	-
Classified Salaries	946,346	807,569	3,286,289	-
Employee Benefits	1,105,606	220,197	1,659,943	-
Books and Supplies	328,826	166,284	3,586,524	-
Services and Other Operating Expenditures	752,930	47,438	81,382	2,453,779
Capital Outlay	19,470	-	-	-
Other Outgo	-	82,861	-	-
Indirect/Direct Support Costs	239,604	68,472	411,784	-
TOTAL EXPENDITURES	<u>6,194,634</u>	<u>1,511,616</u>	<u>9,025,922</u>	<u>2,453,779</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>432,317</u>	<u>232,643</u>	<u>(388,846)</u>	<u>(1,364,393)</u>
OTHER FINANCING SOURCES (USES)				
Other Sources	(2)	-	-	-
Transfers In	-	-	1,235,343	1,091,000
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2)</u>	<u>-</u>	<u>1,235,343</u>	<u>1,091,000</u>
Net Change in Fund Balances	432,315	232,643	846,497	(273,393)
Fund Balances at Beginning of Year	<u>2,095,832</u>	<u>854,385</u>	<u>1,382,348</u>	<u>598,099</u>
Fund Balances at End of Year	<u>\$ 2,528,147</u>	<u>\$ 1,087,028</u>	<u>\$ 2,228,845</u>	<u>\$ 324,706</u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (Continued)
 NON-MAJOR GOVERNMENTAL FUNDS (By Object) – UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008**

	Special Reserve Retiree Benefits Fund	Building Fund	Capital Facilities Fund	State School Building Fund
REVENUES				
Federal Revenues	\$ -	\$ -	\$ -	\$ -
Other State Revenues	-	-	-	-
Other Local Revenues	164,885	7,799	7,163,269	-
TOTAL REVENUES	164,885	7,799	7,163,269	-
EXPENDITURES				
Current:				
Certificated Salaries	-	-	-	-
Classified Salaries	-	-	-	-
Employee Benefits	-	-	-	-
Books and Supplies	-	3,655	79,526	-
Services and Other Operating Expenditures	-	1,134	519,137	-
Capital Outlay	-	115,611	14,708,741	-
Other Outgo	-	-	-	-
Indirect/Direct Support Costs	-	-	-	-
TOTAL EXPENDITURES	-	120,400	15,307,404	-
Excess (Deficiency) of Revenues Over Expenditures	164,885	(112,601)	(8,144,135)	-
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	-	-
Transfers In	3,111,438	-	-	-
Transfers Out	-	-	-	(24)
TOTAL OTHER FINANCING SOURCES (USES)	3,111,438	-	-	(24)
Net Change in Fund Balances	3,276,323	(112,601)	(8,144,135)	(24)
Fund Balances at Beginning of Year	2,821,191	155,632	15,805,070	24
Fund Balances at End of Year	<u>\$ 6,097,514</u>	<u>\$ 43,031</u>	<u>\$ 7,660,935</u>	<u>\$ -</u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
NON-MAJOR GOVERNMENTAL FUNDS (By Object) – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total
REVENUES				
Federal Revenues	\$ -	\$ -	\$ -	\$ 6,281,941
Other State Revenues	-	-	-	8,469,848
Other Local Revenues	338,967	3,872,173	1	14,892,977
TOTAL REVENUES	338,967	3,872,173	1	29,644,766
EXPENDITURES				
Current:				
Certificated Salaries	-	-	-	2,920,647
Classified Salaries	-	-	-	5,040,204
Employee Benefits	-	-	-	2,985,746
Books and Supplies	20,033	-	-	4,184,848
Services and Other Operating Expenditures	50,828	-	-	3,906,628
Capital Outlay	1,358,459	-	-	16,202,281
Other Outgo	-	3,912,355	932,019	4,927,235
Indirect/Direct Support Costs	-	-	-	719,860
TOTAL EXPENDITURES	1,429,320	3,912,355	932,019	40,887,449
Excess (Deficiency) of Revenues Over Expenditures	(1,090,353)	(40,182)	(932,018)	(11,242,683)
OTHER FINANCING SOURCES (USES)				
Other Sources	193	-	-	191
Transfers In	2,000,000	-	932,019	8,369,800
Transfers Out	-	-	-	(24)
TOTAL OTHER FINANCING SOURCES (USES)	2,000,193	-	932,019	8,369,967
Net Change in Fund Balances	909,840	(40,182)	1	(2,872,716)
Fund Balances at Beginning of Year	4,110,383	7,897,350	486	35,720,800
Fund Balances at End of Year	<u>\$ 5,020,223</u>	<u>\$ 7,857,168</u>	<u>\$ 487</u>	<u>\$ 32,848,084</u>

See accompanying note to supplementary information.

**VISALIA UNIFIED SCHOOL DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION – UNAUDITED
JUNE 30, 2008**

NOTE 1 – PURPOSE OF SCHEDULES

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

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

OTHER SUPPLEMENTARY INFORMATION SECTION

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Carol White Physical Education Program	84.215F	N/A	\$ 58,976
Passed through California Department of Education (CDE):			
Adult Basic Education			
SEC 2231 - Priority 5 - GED	84.002	13978	80,592
SEC 231 ABE/ESL	84.002A	14508	122,417
SEC 225 Institutionalized Adults	84.002	13971	49,043
EL Civics	84.002A	14109	33,031
No Child Left Behind			
Title I - Basic	84.010	* 14329	7,459,705
Title I - Even Start	84.213	13001	2,938
Title II - Teacher Quality	84.367	14341	1,585,702
Title II - Technology - Formula Grants	84.318	14334	106,146
Title II - Technology - Competitive Grants	84.318	14368	376,165
Title II - Part A, Administrator Training	84.367	14344	224
Title III - Limited English Proficient	84.365	10084	539,581
Title III - Immigrant Education Program	84.365	14346	75,456
Title IV - Drug Free Schools	84.186	14347	105,925
Title V - Innovative Education	84.298A	13340	36,507
Title V - Part B, Public Charter Schools Grants	84.282	13150	73,090
Special Education - State Grants			
Basic	84.027	* 13379	3,613,576
Vocational Educational Grants			
Carl Perkins - Adult Ed	84.048	13923	112,360
Perkins Career Center	84.048	13924	240,263
Indian Education	84.06	10011	111,220
Total U.S. Department of Education			<u>14,782,917</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch Program	10.555	* 13396	4,456,769
Basic Breakfast	10.553	* 13390	174,065
Especially Needy Breakfast	10.553	* 13526	1,090,962
Total U.S. Department of Agriculture			<u>5,721,796</u>
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act	17.255	13422	159,238
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Child Development - Quality Improvement Activities	93.575	14539	3,464
Medi-Cal Billing Option	93.767	10013	275,365
Total U.S. Department of Health and Human Services			<u>278,829</u>
Total Expenditures of Federal Awards			<u>\$ 20,942,780</u>

* Denotes major program.

See Note to Supplementary Information.

**VISALIA UNIFIED SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2008**

ORGANIZATION

The Visalia Unified School District was organized in 1885 and consists of an area comprising approximately 177 square miles. The District operates twenty-four elementary, four middle, four high schools, an adult school, a continuation high school, and three charter schools. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Juan R. Guerrero	President	2009
Rodney Elder	Clerk	2009
Michael Lane	Member	2009
Donna Martin	Member	2011
Larry Jones	Member	2011
Jim L. Qualls	Member	2009
William A. Fulmer	Member	2011

ADMINISTRATION

Stan A. Carrizosa	Superintendent
Cindi Costa	Assistant Superintendent, Human Resources Development
Robert Gröeber	Assistant Superintendent, Administrative Services
Carlyn Lambert	Assistant Superintendent, Curriculum & Education Services

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	Second Period Report	Annual Report	Charter Home ¹	Charter Alternative ¹	Charter Independent Study ¹
ELEMENTARY					
Kindergarten	1,882	1,890	5	-	-
First through Third	5,903	5,917	10	-	-
Fourth through Sixth	5,627	5,632	16	-	-
Seventh and Eighth	3,689	3,679	30	16	1
Home and Hospital	3	4	-	-	-
Special Education	383	387	-	-	-
Total Elementary	<u>17,487</u>	<u>17,509</u>	<u>61</u>	<u>16</u>	<u>1</u>
SECONDARY					
Regular Classes	6,750	6,678		59	288
Continuation Education	333	324		-	-
Home and Hospital	3	5		-	-
Special Education	206	204		-	-
Total Secondary	<u>7,292</u>	<u>7,211</u>		<u>59</u>	<u>288</u>
COUNTY SUPPLEMENT					
Special Day Class-Elementary	124	124			
Special Day Class-High School	101	99			
Total County Supplement	<u>225</u>	<u>223</u>			
Total K-12	<u>25,004</u>	<u>24,943</u>		<u>75</u>	<u>289</u>
REGIONAL OCCUPATIONAL PROGRAM					
CLASSES FOR ADULTS	423	398			
Concurrently enrolled	61	68			
Adults enrolled, state apportioned	1,621	1,711			
Adults in correctional facilities	94	101			
Total Classes for Adults	<u>1,776</u>	<u>1,880</u>			
Grand Total	<u>27,203</u>	<u>27,221</u>			

	Hours of Attendance
SUPPLEMENTAL HOURS	
Elementary:	
Remedial Instruction	107,430
Pupils Recommended for Retention	4,675
Pupils at Risk of Retention	6,647
Low Star Score	<u>31,018</u>
Total Elementary	<u>149,770</u>
Secondary:	
Core Instruction	110,074
Remedial Instruction	<u>150,988</u>
Total Secondary	<u>261,062</u>
Total Hours	<u>410,832</u>

¹ Second period attendance.

See Note to Supplementary Information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2008**

Visalia Unified School District

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	2007-08 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	31,600	36,180	180	N/A	Complied
Grade 1	50,400	46,640	51,786	180	N/A	Complied
Grade 2	50,400	46,640	51,786	180	N/A	Complied
Grade 3	50,400	46,640	51,786	180	N/A	Complied
Grade 4	54,000	50,448	57,418	180	N/A	Complied
Grade 5	54,000	50,448	57,418	180	N/A	Complied
Grade 6	54,000	50,448	57,418	180	N/A	Complied
Grade 7	54,000	50,448	63,779	180	N/A	Complied
Grade 8	54,000	50,448	63,779	180	N/A	Complied
Grade 9	64,800	61,559	66,549	180	N/A	Complied
Grade 10	64,800	61,559	66,549	180	N/A	Complied
Grade 11	64,800	61,559	66,549	180	N/A	Complied
Grade 12	64,800	61,559	66,549	180	N/A	Complied

Charter Alternative Academy

Grade Level	Minutes Requirement	2007-2008 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 9	64,800	64,962	180	N/A	Complied
Grade 10	64,800	64,962	180	N/A	Complied
Grade 11	64,800	64,962	180	N/A	Complied
Grade 12	64,800	64,962	180	N/A	Complied

See Note to Supplementary Information.

**VISALIA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Schedule of Capital Assets	Schedule of Long Term Liabilities
June 30, 2008 Annual Financial and Budget Report (SACS Report) Balances	\$ 172,547,138	\$ 58,891,762
Adjustments and Reclassifications Increasing (Decreasing) the Balance:		
Understatement of Net Capital Assets	47,672,771	-
Other Post Employment Benefit Liability	-	(54,552,342)
June 30, 2008 Audited Financial Statements Balance	\$ 220,219,909	\$ 4,339,420

See Note to Supplementary Information.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

(Amounts in thousands)

General Fund	(Budgeted) 2009 ¹	2008 ⁴	2007 ⁴	2006 ⁴
Revenues and Other Financial Sources	\$ 206,052	\$ 216,060	\$ 209,797	\$ 195,639
Expenditures	203,835	201,284	188,856	185,300
Other Uses and Transfers Out	2,274	8,370	10,522	2,633
Total Outgo	206,109	209,654	199,378	187,933
Increase (Decrease) in Fund Balance	(57)	6,406	10,419	7,706
Ending Fund Balance	\$ 35,921	\$ 35,978	\$ 29,572	\$ 19,153
Available Reserves - General Fund ²	\$ 17,970	\$ 18,121	\$ 11,529	\$ 8,636
Available Reserves as a Percentage of Total Outgo - General Fund	8.72%	8.64%	5.78%	4.60%
Long-Term Obligations	\$ 40,575	\$ 40,604	\$ 43,574	\$ 47,148
Average Daily Attendance at P-2 ³	25,076	25,004	24,523	24,138

The General Fund balance has increased by \$16.8 million over the past two years. The fiscal year 2008-09 budget projects a decrease of \$57,000 (less than 1 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years, and anticipates incurring an operating deficit during the 2008-09 fiscal year. Total long-term obligations have decreased by \$2.5 million over the past two years.

Average daily attendance has increase by 866 ADA over the past two years. Additional growth of 72 ADA is anticipated during the 2008-09 fiscal year.

¹ Budget 2009 is included for analytical purposes only and has not been subject to audit.

² Available reserve balances (funds designated for economic uncertainty, and any other remaining undesignated fund balance) within the General Fund, Special Reserve Fund for Other than Capital Outlay Projects, and any Article XIII-B Trust Funds.

³ Excludes Adult Education and ROP ADA.

⁴ On behalf payments have been excluded from the information presented.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXCESS SICK LEAVE
FOR THE YEAR ENDED JUNE 30, 2008**

Excess Sick Leave

Section 19833.5 (a)(3)(c) Disclosure

Visalia Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

**VISALIA UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Charter Home	Yes
Charter Alternative	Yes
Charter Independent Study	Yes

See Note to Supplementary Information.

**VISALIA UNIFIED SCHOOL DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. Local Education Agency Organization Structure

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

C. Schedule of Average Daily Attendance (ADA)

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

D. Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement; whichever is greater, as required by Education Code Section 46201.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

F. Schedule of Financial Trends and Analysis

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

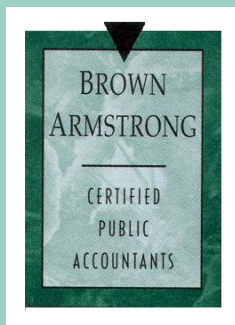
G. Schedule of Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

H. Schedule of Charter Schools

This schedule lists all charter schools chartered by the school district or county office of education, and displays information for each charter school on whether or not the charter school is included in the school district or county office of education audit.

OTHER INDEPENDENT AUDITOR'S REPORTS



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Certified Public Accountants

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

Andrew J. Paulden, CPA
Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, MBA, CPA
Richard L. Halle, CPA, MST

Harvey J. McCown, CPA
Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
Connie M. Perez, CPA
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Jian Ou-Yang, CPA
Ryan S. Johnson, CPA
Jialan Su, CPA
Ariadne S. Prunes, CPA
Samuel O. Newland, CPA
Brooke N. DeCuir, CPA
Kenneth J. Witham, CPA
Clint W. Baird, CPA

Governing Board
Visalia Unified School District
Visalia, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Visalia Unified School District (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

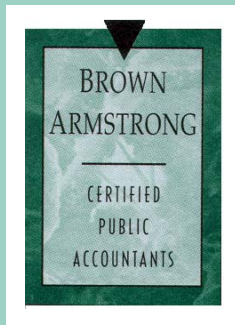
We noted certain matters that we reported to management of Visalia Unified School District in a separate letter dated December 10, 2008.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. A. Paulden", is written over the printed name of the firm.

Bakersfield, California
December 10, 2008



**BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER**
Certified Public Accountants

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**AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Harvey J. McCown, CPA
Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
Connie M. Perez, CPA
M. Sharon Adams, CPA, MST
Diana H. Branthoover, CPA
Thomas M. Young, CPA
Alicia Dias, CPA, MBA
Matthew R. Gilligan, CPA
Hanna J. Sheppard, CPA
Ryan L. Nielsen, CPA
Jian Ou-Yang, CPA
Ryan S. Johnson, CPA
Jialan Su, CPA
Ariadne S. Prunes, CPA
Samuel O. Newland, CPA
Brooke N. DeCuir, CPA
Kenneth J. Witham, CPA
Clint W. Baird, CPA

Governing Board
Visalia Unified School District
Visalia, California

Compliance

We have audited the compliance of Visalia Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Visalia Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Visalia Unified School District's management. Our responsibility is to express an opinion on Visalia Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Visalia Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Visalia Unified School District's compliance with those requirements.

In our opinion, Visalia Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Visalia Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Visalia Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Visalia Unified School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

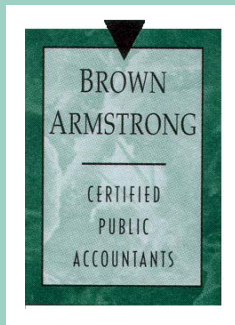
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink, appearing to read "S. K.", is positioned below the printed name of the accounting firm.

Bakersfield, California
December 10, 2008



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Certified Public Accountants**

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**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE**

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Lynn R. Krausse, CPA, MST
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Governing Board
Visalia Unified School District
Visalia, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Visalia Unified School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Visalia Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Visalia Unified School District's compliance with the State laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers/Programs	6	No (see below)
Instructional Time for:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Not applicable
Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
GANN Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	2 or 3	Yes
Notice of Right to Elect California State Teachers Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Contemporaneous Records of Attendance, for charter schools	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes – Classroom Based, for charter schools	3	Yes

We did not perform testing for regional occupational centers and programs because the program is administered by an outside agency with its own audit.

Based on our audit, we found that for the items tested, the Visalia Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Visalia Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Visalia Unified School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
December 10, 2008

FINDINGS AND QUESTIONED COSTS SECTION

**VISALIA UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? Yes No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555 / 10.553	National School Lunch Program / Basic Breakfast / Especially Needy Breakfast (cluster)
84.010	Title I – Basic and Program Improvement
84.027	Special Education Program

Dollar threshold used to distinguish between Type A & B programs: \$628,283

Auditee qualified as low-risk auditee? Yes No

State Awards

Internal control over state programs:

- Material weakness identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes None reported

Type of Auditor’s Report issued on compliance for state awards: Unqualified

VISALIA UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS (Continued)
JUNE 30, 2008

SECTION II – FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – STATE AWARDS FINDINGS AND QUESTIONED COSTS

None.

**VISALIA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

The following finding represents a significant deficiency related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u> 30000	<u>AB 3627 Finding Type</u> Internal Control
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2007-1

FOOD SERVICE PROGRAM

Revenue Controls

Finding

During our review of the food service clearing account controls and reconciliations, we noted a discrepancy between the sales of meals and the amount of cash deposited for one site. Upon further investigation we noted that the site was selling more lunches than they were reporting and not depositing all of the cash received on a regular basis. The Food Service Program and the District should review and modify the following procedures. The bank deposit slip is forwarded to the District Office by the site whom deposited the cash to the bank. At the District Office, the deposit slips are accounted for and reconciled to ensure that all sites have deposited funds for each day that had food services. The sales report printed from the system at the site used to balance the actual cash collections and deposit to sales rung up is forwarded to the Food Service Department but is not forwarded to the District Office to complete the reconciliation process and ensure completeness of the audit trail.

In addition, the clearing account regularly has over \$100,000 maintained in it and is only cleared once a month. The clearing account is crediting interest at around five percent, which is typically lower than that earned in the County Treasurer's Office.

Recommendation

Cash sales are highly susceptible to theft. Besides the control mentioned above, the Food Service Department should develop an easy and quick comparison between comparable sites (grade span, free and reduced lunch activity, and enrollment) to ensure that those sites' lunch sales revenues are relatively similar. A large variance between comparable sites could alert the District to possible theft. Additionally, non-cash adjustments should be reviewed periodically as this is one way for theft to occur. A student's account can be credited with a payment and then a non-cash adjustment posted whereby the student's account is not impacted however, the cash sales total for the day would be reduced in the system.

The daily sales report generated off of the food service system should be forwarded to the District Office to be verified and maintained with the daily cash deposit slip.

The clearing account should be cleared at least twice a month to maximize the interest earnings and minimize the total District cash balance (including student body accounts and site and District revolving accounts).

District Response

NSD has created and is currently using a spreadsheet that tracks meals served by site. The spreadsheet tracks the meals served each day at each site grouped by similar size and demographics. This will allow the NSD Director to compare sites to sites with similar demographics and size and to the same site each month. A notable difference will be cause to investigate site data more closely.

A Sales and Meal Count Report generated by WinSNAP is sent with the Cafeteria Daily Sales Collection Report from each school site to the Nutritional Services Department (NSD) Office and is reconciled. The Cafeteria Daily Sales Collection Report is also sent to the District Office. Once the District's banker has reviewed the collection report and made the bank deposit, copies of the deposit slips are forwarded to the NSD office along with any cash discrepancy notes from the banker. A clerk in the NSD office matches the banker paperwork with the site paperwork and checks to be sure they match. The clerk also checks to be sure a deposit is made for each day for each site. Any discrepancies are brought to the attention of the NSD Director.

Non-cash adjustments to student accounts will be reviewed periodically.

The clearing account is now being cleared twice a month, as per the audit recommendation.

Current Year Status

No similar finding noted in the current year.

The following finding represents a significant deficiency including questioned costs that is required to be reported by OMB Circular A-133. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2007-2

Finding

National School Lunch Program
U.S. Department of Agriculture
CFDA Number: 10.555
Pass Through Number: 13523

Criteria

Reimbursements through the National School Lunch Program are made on a per meal basis. Districts are required to track the number of meals served each month and submit a claim for reimbursement.

Condition

We noted that on the Claim for Reimbursement form for the month of March there was a discrepancy in the amount of meals served for the "Especially Needy School Breakfast" category. The claim was stated at 63,247 meals for paid meals; 168,234 meals for free meals; and 30,789 meals for reduced price meals. The incorrect amounts created a State reimbursement of \$83,855.73 when it should have been \$58,361.52 (a difference of \$25,494.21) and a Federal reimbursement of \$826,530.40 when it should have been \$631,319.80 (a difference of \$195,210.60).

Questioned Costs

Questioned Cost: \$25,494.21 for State and \$195,210.60 for Federal
Likely Questioned Cost: \$25,494.21 for State and \$195,210.60 for Federal

Prevalence

The finding covers the National School Lunch Program for the District.

Effect

Inadequate controls to ensure that meal counts are tracked accurately increases the risk of misstatement of the Meal Claims for Reimbursements.

Recommendation

In order to correct the overpayment that the District received from the State and Federal School Lunch Program the District should resubmit a revised Claim for Reimbursement for the month of March. The District should also set up payables to both State and Federal revenue to reimburse the agency for the discrepancy.

District Response

The District has revised the March claim for the "Especially Needy School Breakfast" program. Payables were set up as needed. A spreadsheet has been created to help monitor and track monthly activity of meal claim revenues. A budget analyst at the District office will be reviewing revenues monthly for reasonableness.

Current Year Status

No similar finding noted in the current year.