

GUSTINE UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

GUSTINE UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Gustine Unified School District
Gustine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gustine Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gustine Unified School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 12, budgetary comparison information and postemployment benefits information on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Gustine Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gustine Unified School District's internal control over financial reporting and compliance.

Vannink, Trini, Day & Co, LLP

Fresno, California
December 12, 2013

Gustine Unified School District



1500 Meredith Avenue
Gustine, California 95322
Telephone (209) 854-3784
FAX (209) 854-9164

Gail A. McWilliams, Ed.D.
Superintendent

Board of Education
Melanie Gomes
Ernie Longoria
Christine Parreira
Pat Rocha
Loretta Rose

"Preparing students for the future . . . today"

This section of Gustine Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Gustine Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

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

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

The *Fund Financial Statements* include statements for each of the two categories of activities which are governmental and fiduciary.

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

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the Gustine Unified School District.

GUSTINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

Governmental Activities - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds - All 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.

GUSTINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The Gustine Unified School District 2012-2013 funded revenue limit ADA experienced another small increase for the second year in a row. The actual 2012-2013 ADA also increased from 2011-2012. Both of these point to increased stability in enrollment/attendance, and in turn, an increase in the funding that is driven by this enrollment/attendance. Continued deficit funding from the state revenue remained a financial impact to the district. There were no personnel layoffs for the 2012-2013 school year. For the first time in the past several years, there were no furlough days and the school year had a full 180 days. In addition, every employee received a one-time, off-schedule bonus of \$675.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$15.7 million for the fiscal year ended June 30, 2013, and \$16.6 million for the fiscal year ended June 30, 2012; a decrease of \$946 thousand. Of this amount, \$2.6 million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

GUSTINE UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Table 1

(Amounts in thousands)

	Governmental Activities		
	2013	2012	Variance
Assets			
Current and other assets	\$ 8,120	\$ 8,306	\$ (186)
Capital assets	19,110	19,792	(682)
Total Assets	<u>27,230</u>	<u>28,098</u>	<u>(868)</u>
Liabilities			
Current liabilities	1,362	968	394
Long-term obligations	10,211	10,527	(316)
Total Liabilities	<u>11,573</u>	<u>11,495</u>	<u>78</u>
Net Position			
Net investment in capital assets	9,398	9,829	(431)
Restricted	3,647	3,561	86
Unrestricted	2,612	3,213	(601)
Total Net Position	<u>\$ 15,657</u>	<u>\$ 16,603</u>	<u>\$ (946)</u>

The \$2.6 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Position

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

GUSTINE UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Table 2

(Amounts in thousands)

	Governmental Activities		
	2013	2012	Variance
Revenues			
Program revenues:			
Charges for services	\$ 238	\$ 164	\$ 74
Operating grants and contributions	3,346	3,429	(83)
Capital grants and contributions	(16)	-	(16)
General revenues:			
Federal and State aid not restricted	8,608	8,236	372
Property taxes	2,220	2,248	(28)
Other general revenues	393	550	(157)
Total Revenues	14,789	14,627	162
Expenses			
Instruction related	10,208	10,015	193
Student support services	2,055	1,822	233
Administration	1,199	1,179	20
Plant services	1,696	2,370	(674)
Other	577	610	(33)
Total Expenses	15,735	15,996	(261)
Change in Net Position	\$ (946)	\$ (1,369)	\$ 423

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$15.7 million, as compared to \$16 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$2.2 million because the cost was paid by those who benefited from the programs (\$238 thousand) or by other governments and organizations who subsidized certain programs with grants and contributions (\$3.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$8.6 million in State funds and other revenues, like interest and general entitlements.

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

GUSTINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Table 3

(Dollar amounts in thousands)

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction related	\$ 10,208	\$ 10,015	\$ 8,345	\$ 7,777
Student support services	2,055	1,822	652	737
Administration	1,199	1,179	1,015	1,037
Plant services	1,696	2,370	1,657	2,345
Other	577	610	498	507
Total	\$ 15,735	\$ 15,996	\$ 12,167	\$ 12,403

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$6.7 million while the prior year reported \$7.0 million, a decrease of \$300 thousand (Table 4).

Table 4

(Dollar amounts in thousands)

	Fund Balance		
	June 30, 2013	June 30, 2012	Variance
General	\$ 3,668	\$ 4,131	\$ (463)
Adult Education	83	65	18
Cafeteria	143	71	72
Deferred Maintenance	300	301	(1)
Capital Facilities	502	497	5
County School Facilities	422	444	(22)
Special Reserve Capital Outlay	35	35	-
Debt Service	1,555	1,467	88
Total	\$ 6,708	\$ 7,011	\$ (303)

The primary reasons for net decrease:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased approximately \$463 thousand due to less federal and state funding.
- b. Our Special Revenue Funds increased by \$89 thousand due to additional federal funding.
- c. The Capital Projects Funds showed a decrease of approximately \$17 thousand due to modernization money being repaid.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 27, 2013. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual audit report.

GUSTINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$19.1 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions and deductions) of just under \$681 thousand, or three percent, from last year.

Table 5

(Amounts in thousands)	Governmental Activities		
	2013	2012	Variance
Land and construction in process	\$ 1,746	\$ 1,746	\$ -
Buildings and improvements	17,111	17,901	(790)
Equipment	254	145	109
Total	\$ 19,111	\$ 19,792	\$ (681)

We present more detailed information about our capital assets in the Notes to Financial Statements.

Long-Term Obligations

At the end of this year, the District had \$10.5 million in debt outstanding versus \$10.5 million last year, a decrease of \$55 thousand. This debt consisted of:

Table 6

(Amounts in thousands)	Governmental Activities		
	2013	2012	Variance
QZAB	\$ 1,610	\$ 1,610	\$ -
Certificates of participation	7,580	7,765	(185)
Compensated absences	74	61	13
Construction settlement	523	588	(65)
Other postemployment benefits	685	503	182
Total	\$ 10,472	\$ 10,527	\$ (55)

The District's certificates of participation S&P rating at the time of their last issuance was "AAA/BBB+".

Other obligations include compensated absences payable, postemployment benefits and other long-term obligations. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

GUSTINE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2012-2013 ARE NOTED BELOW:

Management and District staff have worked together to continue to act prudently and remain conscious of the difficult financial times that the state has imposed on school districts. Despite deficit funding by the state and the impact of declining enrollment, Gustine Unified School District has stayed ahead of the reduced funding and cash flow disparity. This is demonstrated by the solid ending fund balance and general fund reserve of 10.48 percent, 15.07 percent include Special Reserves. In addition, the District has been able to maintain a positive cash balance, without the need of any temporary borrowing. This is a significant accomplishment, considering that the state continued to have significant revenue limit cash deferrals.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2013-2014 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Slightly increased revenue limit income due to increased ADA and 1.565 percent COLA.
2. Interest earnings will remain fairly consistent.
3. Developer fee collections are based on approximate new housing units to be the same as the prior year.
4. No increases in Federal Funds were included in the 2013-2014 budget.
5. State income will decrease slightly, approximately eight percent, mostly due to reductions in one-time categorical funding.
6. Anticipated funding increases of approximately \$700,000, resulting from the passage of the Local Control Funding Formula (LCFF), have **not** been included.
7. Step and Column salary increases of approximately \$160,000 have been included.
8. Negotiations have not been settled with either union. Thus, changes in salary costs that may result from negotiations are not included.

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 Chief Business Officer at Gustine Unified School District, 1500 Meredith Avenue, Gustine, California, 95322, by phone at 209-854-3784 or e-mail at laguilar@gustine.k12.ca.us.

GUSTINE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 5,045,565
Receivables	2,674,360
Prepaid expenses	77,323
Deferred issuance costs	310,110
Stores inventories	12,235
Nondepreciable capital assets	1,746,351
Capital assets being depreciated	31,160,776
Accumulated depreciation	(13,795,869)
Total Assets	<u>27,230,851</u>
LIABILITIES	
Accounts payable	1,095,894
Deferred revenue	5,715
Current portion of long-term obligations	260,386
Noncurrent portion of long-term obligations	10,211,735
Total Liabilities	<u>11,573,730</u>
NET POSITION	
Net investment in capital assets	9,398,173
Restricted for:	
Debt service	1,555,226
Capital projects	923,943
Educational programs	1,025,374
Other activities	142,560
Unrestricted	2,611,845
Total Net Position	<u>\$ 15,657,121</u>

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

GUSTINE UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 8,960,089	\$ 103,713	\$ 1,688,332	\$ (16,462)
Instruction-related activities:				
Supervision of instruction	5,376	-	4,650	-
Instructional library, media, and technology	67,857	-	52,784	-
School site administration	1,174,584	-	29,669	-
Pupil services:				
Home-to-school transportation	748,614	3	336,758	-
Food services	864,958	84,155	780,025	-
All other pupil services	441,461	9,536	192,932	-
Administration:				
Data processing	176,764	-	-	-
All other administration	1,022,272	19,814	164,369	-
Plant services	1,696,303	16,440	23,043	-
Ancillary services	95,238	-	-	-
Interest on long-term obligations	346,262	-	-	-
Other outgo	135,243	4,431	73,516	-
Total Governmental Activities	\$ 15,735,021	\$ 238,092	\$ 3,346,078	\$ (16,462)

General revenues and subventions:

- Property taxes, levied for general purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

- Net Position - Beginning
- Net Position - Ending

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

Net (Expenses)
Revenues and
Changes in
Net Position
Governmental
Activities
\$ (7,184,506)
(726)
(15,073)
(1,144,915)
(411,853)
(778)
(238,993)
(176,764)
(838,089)
(1,656,820)
(95,238)
(346,262)
(57,296)
<u>(12,167,313)</u>
2,220,191
8,607,721
26,182
367,402
<u>11,221,496</u>
(945,817)
16,602,938
<u>\$ 15,657,121</u>

GUSTINE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Debt Service Fund</u>
ASSETS			
Deposits and investments	\$ 1,811,723	\$ 830,644	\$ 1,555,226
Receivables	2,498,452	-	-
Due from other funds	361,107	-	-
Prepaid expenditures	77,323	-	-
Stores inventories	-	-	-
Total Assets	<u>\$ 4,748,605</u>	<u>\$ 830,644</u>	<u>\$ 1,555,226</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,054,861	\$ -	\$ -
Due to other funds	20,131	329,048	-
Deferred revenue	5,715	-	-
Total Liabilities	<u>1,080,707</u>	<u>329,048</u>	<u>-</u>
Fund Balances:			
Nonspendable	82,323	-	-
Restricted	1,025,374	501,596	1,555,226
Committed	-	-	-
Assigned	1,144,612	-	-
Unassigned	1,415,589	-	-
Total Fund Balances	<u>3,667,898</u>	<u>501,596</u>	<u>1,555,226</u>
Total Liabilities and Fund Balances	<u>\$ 4,748,605</u>	<u>\$ 830,644</u>	<u>\$ 1,555,226</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 847,972	\$ 5,045,565
175,908	2,674,360
20,131	381,238
-	77,323
12,235	12,235
<u>\$ 1,056,246</u>	<u>\$ 8,190,721</u>
\$ 41,033	\$ 1,095,894
32,059	381,238
-	5,715
<u>73,092</u>	<u>1,482,847</u>
12,435	94,758
552,472	3,634,668
382,767	382,767
35,480	1,180,092
-	1,415,589
<u>983,154</u>	<u>6,707,874</u>
<u>\$ 1,056,246</u>	<u>\$ 8,190,721</u>

GUSTINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2013

Total Fund Balance - Governmental Funds		\$ 6,707,874
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 32,907,127	
Accumulated depreciation is	<u>(13,795,869)</u>	
Net Capital Assets		19,111,258
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are amortized over the life of the debt on the accrual basis. The balance to amortize is reported on the Statement of Net Position as deferred charges.		310,110
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
QZAB lease agreement	(1,610,000)	
Certificates of participation	(7,580,000)	
Compensated absences	(73,870)	
Construction settlement	(523,085)	
Other postemployment benefits	<u>(685,166)</u>	
Total Long-Term Obligations		<u>(10,472,121)</u>
Total Net Position - Governmental Activities		<u><u>\$ 15,657,121</u></u>

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

GUSTINE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	General Fund	Capital Facilities Fund	Debt Service Fund
REVENUES			
Revenue limit sources	\$ 8,904,179	\$ -	\$ -
Federal sources	984,302	-	-
Other State sources	3,143,608	-	-
Other local sources	282,829	335,503	88,139
Total Revenues	13,314,918	335,503	88,139
EXPENDITURES			
Current			
Instruction	8,359,099	-	-
Instruction-related activities:			
Supervision of instruction	5,376	-	-
Instructional library, media and technology	66,947	-	-
School site administration	1,136,837	-	-
Pupil services:			
Home-to-school transportation	607,758	-	-
Food services	-	-	-
All other pupil services	437,838	-	-
Administration:			
Data processing	160,008	-	-
All other administration	973,410	-	-
Plant services	1,535,457	-	-
Facility acquisition and construction	13,980	2,270	-
Ancillary services	95,238	-	-
Other outgo	135,243	-	-
Debt service			
Principal	250,386	-	-
Interest and other	706	329,048	-
Total Expenditures	13,778,283	331,318	-
NET CHANGE IN FUND BALANCES	(463,365)	4,185	88,139
Fund Balance - Beginning	4,131,263	497,411	1,467,087
Fund Balance - Ending	\$ 3,667,898	\$ 501,596	\$ 1,555,226

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 8,904,179
767,365	1,751,667
189,382	3,332,990
93,897	800,368
<u>1,050,644</u>	<u>14,789,204</u>
75,614	8,434,713
-	5,376
-	66,947
1,605	1,138,442
-	607,758
795,241	795,241
-	437,838
-	160,008
32,059	1,005,469
18,528	1,553,985
59,950	76,200
-	95,238
-	135,243
-	250,386
-	329,754
<u>982,997</u>	<u>15,092,598</u>
67,647	(303,394)
915,507	7,011,268
<u>\$ 983,154</u>	<u>\$ 6,707,874</u>

GUSTINE 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, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ (303,394)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 156,560	
Depreciation expense	(837,806)	
Net Expense Adjustment		(681,246)

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned this year was \$12,775 more than was used. (12,775)

In governmental funds, Postemployment benefits other than pensions (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: (182,280)

Under the modified basis of accounting used in the governmental funds, debt issuance costs are recognized when expended. In the Statement of Activities, however, which is presented on the accrual basis, these issuance costs are amortized over the life of the obligation. The amortization of issuance costs was: (16,508)

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

Certificates of participation	185,000	
Construction settlement	65,386	
Change in Net Position of Governmental Activities		\$ (945,817)

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

GUSTINE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 120,779
Total Assets	<u>\$ 120,779</u>
LIABILITIES	
Due to student groups	\$ 120,779
Total Liabilities	<u>\$ 120,779</u>

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Gustine Unified School District (the District) was unified on January 25, 1971, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates two elementary schools, one middle school, one high school, one continuation school, and one adult school.

A reporting entity is comprised of the primary government, 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 Gustine Unified School District, this includes general operations, food service, and student related activities of the District.

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 two broad fund categories: governmental and fiduciary.

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

Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$505,037, \$505,037, and \$4,029, respectively.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Debt Service Fund The Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation and the District's Qualified Zone Academy Bond (QZAB).

Non-Major Governmental Funds

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

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

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

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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; which 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, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District 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. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 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, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2013, 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 pools are determined by the program sponsor.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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, five to 50 years; equipment, two to 15 years.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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.

Deferred Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the *Statement of Net Position*. Issuance costs related to those obligations are deferred and amortized over the life of the obligation using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$3,647,103 of restricted net position.

Estimates

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

Budgetary Data

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Property Tax

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

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

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

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

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

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

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 5,045,565
Fiduciary funds	120,779
Total Deposits and Investments	<u>\$ 5,166,344</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 120,779
Cash in revolving	5,200
Investments	5,040,365
Total Deposits and Investments	<u>\$ 5,166,344</u>

Policies and Practices

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

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

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
AEGON Institutional GIC	\$ 1,555,226	\$ 1,555,226	\$ -	\$ -	\$ -
Held by Trustee:					
Money Market Mutual Funds	3	3	-	-	-
County Pool	3,479,692	-	3,479,692	-	-
Total	<u>\$ 5,034,921</u>	<u>\$ 1,555,229</u>	<u>\$ 3,479,692</u>	<u>\$ -</u>	<u>\$ -</u>

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
AEGON Institutional GIC	\$ 1,555,226	N/A	\$ -	\$ -	\$ 1,555,226
Held by Trustee:					
Money Market Mutual Funds	3	N/A	-	-	3
County Pool	3,479,692	N/A	-	-	3,479,692
Total	<u>\$ 5,034,921</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,034,921</u>

N/A - Not applicable

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
U.S. Bank	AEGON Institutional GIC	<u>\$ 1,555,226</u>

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 investment in U.S. Bank of \$1,555,226, the District has a custodial credit risk exposure of \$1,555,226 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District's investment policy limits the amount of securities that can be held by counterparties.

GUSTINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal Government			
Categorical aid	\$ 410,624	\$ 130,451	\$ 541,075
State Government			
Apportionment	1,525,718	-	1,525,718
Other state sources	498,351	31,303	529,654
Local Sources	63,759	14,154	77,913
Total	<u>\$ 2,498,452</u>	<u>\$ 175,908</u>	<u>\$ 2,674,360</u>

NOTE 4 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2013, consisted of the following:

Legal settlement fees	<u>\$ 77,323</u>
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GUSTINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 1,671,212	\$ -	\$ 1,671,212
Construction in process	75,139	-	75,139
Total Capital Assets Not Being Depreciated	<u>1,746,351</u>	<u>-</u>	<u>1,746,351</u>
Capital Assets Being Depreciated			
Land improvements	2,984,704	-	2,984,704
Buildings and improvements	27,591,598	-	27,591,598
Furniture and equipment	427,914	156,560	584,474
Total Capital Assets Being Depreciated	<u>31,004,216</u>	<u>156,560</u>	<u>31,160,776</u>
Less Accumulated Depreciation			
Land improvements	2,665,105	36,700	2,701,805
Buildings and improvements	10,009,880	754,005	10,763,885
Furniture and equipment	283,078	47,101	330,179
Total Accumulated Depreciation	<u>12,958,063</u>	<u>837,806</u>	<u>13,795,869</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,792,504</u>	<u>\$ (681,246)</u>	<u>\$ 19,111,258</u>

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

Governmental Activities	
Instruction	\$ 385,391
School site administration	25,134
Home-to-school transportation	217,830
Food services	67,024
Data processing	16,756
All other general administration	8,378
Plant services	117,293
Total Depreciation Expenses Governmental Activities	<u>\$ 837,806</u>

GUSTINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ 361,107	\$ 20,131
Capital Facilities	-	329,048
Total Major Governmental Funds	<u>361,107</u>	<u>349,179</u>
Non-Major Governmental Funds		
Adult Education	19,940	2,952
Cafeteria	-	29,107
Deferred Maintenance	191	-
Total Non-Major Governmental Funds	<u>20,131</u>	<u>32,059</u>
Total All Governmental Funds	<u>\$ 381,238</u>	<u>\$ 381,238</u>

The General Fund owes the Adult Education Fund for flexibility transfers.	\$ 19,940
The Capital Facilities Fund owes the General Fund for the COP payment.	329,048
The General Fund owes the Deferred Maintenance Fund for a payroll correction.	191
The Cafeteria Fund owes the General Fund for indirect costs.	29,107
The Adult Fund owes the General Fund for indirect costs.	2,952
Total	<u>\$ 381,238</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Vendor payables	\$ 482,646	\$ 36,986	\$ 519,632
Salaries and benefits	334,219	4,047	338,266
State apportionment	21,897	-	21,897
Deferred payroll	216,099	-	216,099
Total	<u>\$ 1,054,861</u>	<u>\$ 41,033</u>	<u>\$ 1,095,894</u>

GUSTINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

Federal financial assistance	<table border="1"> <tr> <td style="text-align: center;">General Fund</td> </tr> <tr> <td style="text-align: right;">\$ 5,715</td> </tr> </table>	General Fund	\$ 5,715
General Fund			
\$ 5,715			

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
QZAB lease agreement	\$ 1,610,000	\$ -	\$ -	\$ 1,610,000	\$ -
Certificates of participation	7,765,000	-	185,000	7,580,000	195,000
Compensated absences - net	61,095	12,775	-	73,870	-
Construction settlement	588,471	-	65,386	523,085	65,386
Other postemployment benefits	502,886	395,585	213,305	685,166	-
Total	<u>\$ 10,527,452</u>	<u>\$ 408,360</u>	<u>\$ 463,691</u>	<u>\$ 10,472,121</u>	<u>\$ 260,386</u>

The QZAB will be paid off by the trustee at its maturity. Debt payments for the certificates of participation are made from the General Fund. The compensated absences and other postemployment benefits will be paid by the fund for which the employee worked. The construction settlement payments are made from the General Fund.

Qualified Zone Academy Bond (QZAB)

In the 2002-03 fiscal year the District issued bonds under the Qualified Zone Academy Bond Program. A portion of the gross sales proceeds were placed in a trust account in a Guaranteed Investment Contract which is projected to earn sufficient interest earnings to pay off the bonds upon their maturity in 2015. The outstanding obligation totals \$1,610,000 and is due in 2015. The amount held with the fiscal agent amounted to \$1,555,226 as of June 30, 2013.

Certificates of Participation

On March 15, 2007, the Gustine Unified School District issued certificates of participation in the amount of \$8,640,000 with interest rates ranging from 3.875 to 4.375 percent. At June 30, 2013, the principal balance outstanding was \$7,580,000.

GUSTINE UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

2007 Issuance:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 195,000	\$ 321,650	\$ 516,650
2015	200,000	313,850	513,850
2016	210,000	305,850	515,850
2017	215,000	297,712	512,712
2018	225,000	289,381	514,381
2019-2023	1,260,000	1,306,189	2,566,189
2024-2028	1,530,000	1,022,553	2,552,553
2029-2033	1,905,000	659,531	2,564,531
2034-2037	1,840,000	205,625	2,045,625
Total	<u>\$ 7,580,000</u>	<u>\$ 4,722,341</u>	<u>\$ 12,302,341</u>

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2013, amounted to \$73,870.

Construction Settlement

The District had a legal settlement with a construction company pertaining to a past construction project. The District owes the construction company a total amount of \$653,857. At June 30, 2013, the principal balance outstanding was \$523,085.

Year Ending June 30,	Principal	Interest	Total
2014	\$ 65,386	\$ 785	\$ 66,171
2015	65,386	2,059	67,445
2016	65,386	1,763	67,149
2017	65,386	1,471	66,857
2018	65,386	1,175	66,561
2019-2022	196,155	1,770	197,925
Total	<u>\$ 523,085</u>	<u>\$ 9,023</u>	<u>\$ 532,108</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$375,470, and contributions made by the District during the year were \$184,223 (includes factor of 1.3777 to adjust for the implicit rate subsidy). Interest on the net OPEB obligation and adjustments to the annual required contribution were \$20,115 and \$(29,082), respectively, which resulted in an increase to the net OPEB obligation of \$182,280. As of June 30, 2013, the net OPEB obligation was \$685,166. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 200	\$ 5,200
Stores inventories	-	-	-	12,235	12,235
Prepaid expenditures	77,323	-	-	-	77,323
Total Nonspendable	82,323	-	-	12,435	94,758
Restricted					
Legally restricted programs	1,025,374	-	-	130,125	1,155,499
Capital projects	-	501,596	-	422,347	923,943
Debt service	-	-	1,555,226	-	1,555,226
Total Restricted	1,025,374	501,596	1,555,226	552,472	3,634,668
Committed					
Adult education program	-	-	-	82,775	82,775
Deferred maintenance program	-	-	-	299,992	299,992
Total Committed	-	-	-	382,767	382,767
Assigned					
Capital projects	-	-	-	35,480	35,480
Athletic events and supplies	524,990	-	-	-	524,990
Construction liability for unfinished OPSC projects	619,622	-	-	-	619,622
Total Assigned	1,144,612	-	-	35,480	1,180,092
Unassigned					
Reserve for economic uncertainties	1,415,589	-	-	-	1,415,589
Total Unassigned	1,415,589	-	-	-	1,415,589
Total	\$ 3,667,898	\$ 501,596	\$ 1,555,226	\$ 983,154	\$ 6,707,874

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2013, the following District major fund exceeded the budgeted amounts as follows:

Fund	Expenditures		
	Budget	Actual	Excess
General			
Certificated salaries	\$ 6,190,227	\$ 6,284,157	\$ 93,930
Services and operating expenditures	\$ 1,754,634	\$ 1,768,521	\$ 13,887
Other outgo	\$ 102,531	\$ 103,184	\$ 653

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

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Gustine Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 13 retirees and beneficiaries currently receiving benefits and 107 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the Gustine Romero Teachers Association (GRTA), the Classified School Employees Association (CSEA), and unrepresented groups. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2012-2013, the District contributed \$133,718 (this does not include factor of 1.3777 to adjust for the implicit rate subsidy) to the plan, all of which was used for current premiums (approximately 45 percent of total premiums). Plan members receiving benefits contributed \$165,382, or approximately 55 percent of the total premiums.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 375,470
Interest on net OPEB obligation	20,115
Adjustment to annual required contribution	<u>(29,082)</u>
Annual OPEB cost (expense)	366,503
Contributions made	<u>(184,223)</u>
Increase in net OPEB obligation	182,280
Net OPEB obligation, beginning of year	<u>502,886</u>
Net OPEB obligation, end of year	<u><u>\$ 685,166</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 366,503	\$ 184,223	50.27%	\$ 685,166
2012	330,508	209,849	63.49%	502,886
2011	332,366	209,000	62.88%	382,227

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2012	\$ -	\$ 3,028,118	\$ 3,028,118	0%	\$ 7,846,885	38.59%

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Actuarial Methods and Assumptions

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

In the July 1, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial seven percent to an ultimate rate of five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2013, was 26 years.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2013, the District contracted with Central Region Schools Insurance Group (CRSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Workers' Compensation

For fiscal year 2013, the District participated in the Merced County Schools Insurance Group I (MCSIG I), an insurance purchasing pool. The intent of the MCSIG I is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the MCSIG I. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the MCSIG I. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the MCSIG I. Participation in the MCSIG I is limited to districts that can meet the MCSIG I selection criteria.

Employee Medical Benefits

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

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$514,252, \$526,494, and \$490,701, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

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 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$165,748, \$162,470, and \$154,499, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$325,281 (5.176 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted and actual amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

Litigation

The District is not currently a party to any legal proceedings.

NOTE 16 - PARTICIPATION IN JOINT POWER AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC III), the Merced County Schools Insurance Group I (MCSIG I), and the Central Region Schools Insurance Group (CRSIG) and the joint powers authorities (JPAs). The District pays an annual premium to each entity for its dental, health, workers' compensation, and property liability coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

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

During the year ended June 30, 2013, the District made payment of \$1,337,960 to SISC III for dental and health insurance. At June 30, 2013, the District was not owed nor did it owe funds to SISC III.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

During the year ended June 30, 2013, the District made payment of \$99,199 to MCSIG I for workers' compensation insurance. At June 30, 2013, the District was not owed nor did it owe funds to MCSIG I.

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

During the year ended June 30, 2013, the District made payment of \$104,175 to CRSIG for property and liability insurance. At June 30, 2013, the District was not owed nor did it owe funds to CRSIG.

REQUIRED SUPPLEMENTARY INFORMATION

GUSTINE UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 8,053,533	\$ 8,952,469	\$ 8,904,179	\$ (48,290)
Federal sources	875,645	998,175	984,302	(13,873)
Other State sources	2,697,297	2,509,344	2,818,327	308,983
Other local sources	180,615	253,256	282,829	29,573
Total Revenues ¹	11,807,090	12,713,244	12,989,637	276,393
EXPENDITURES				
Current				
Certificated salaries	5,817,663	6,190,227	6,284,157	(93,930)
Classified salaries	1,534,514	1,648,978	1,631,704	17,274
Employee benefits	2,530,871	2,563,813	2,517,261	46,552
Books and supplies	855,931	949,712	726,543	223,169
Services and operating expenditures	1,525,225	1,754,634	1,768,521	(13,887)
Other outgo	88,459	102,531	103,184	(653)
Capital outlay	16,000	171,460	170,540	920
Debt service - principal	251,000	251,000	706	250,294
Debt service - interest	331,000	331,000	250,386	80,614
Total Expenditures ¹	12,950,663	13,963,355	13,453,002	510,353
Excess (Deficiency) of Revenues Over Expenditures	(1,143,573)	(1,250,111)	(463,365)	786,746
Other Financing Sources (Uses)				
Transfers out	-	(43,780)	-	43,780
Net Financing Sources (Uses)	-	(43,780)	-	43,780
NET CHANGE IN FUND BALANCES	(1,143,573)	(1,293,891)	(463,365)	830,526
Fund Balance - Beginning	4,131,263	4,131,263	4,131,263	-
Fund Balance - Ending	\$ 2,987,690	\$ 2,837,372	\$ 3,667,898	\$ 830,526

¹ On behalf payments are not included in the budgeted or actual revenues and expenditures in this schedule. In addition, due to the consolidation of Fund 17, Special Reserve Non-Capital Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

GUSTINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2012	\$ -	\$ 3,028,118	\$ 3,028,118	0%	\$ 7,846,885	38.59%

SUPPLEMENTARY INFORMATION

GUSTINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
No Child Left Behind			
Title I - Part A, Basic Grant	84.010	14329	\$ 568,711
Title II - Improving Teacher Quality	84.367	14341	77,407
Title III - Immigrant Education	84.365	15146	7,445
Title III - Limited English Proficient Students	84.365	14346	65,377
Special Education - IDEA State Grants			
Special Education Programs			
IDEA - Basic Local Assistance	84.027	13379	240,462
IDEA - Local Assistance Private School	84.027	10115	4,272
Subtotal Special Education Programs			<u>244,734</u>
Adult Education - ABE & ESL	84.002A	14508	10,000
Adult Education - English Literacy & Civics Education	84.002A	14109	10,000
Vocational Educational Grants Technology Secondary II C	84.048	14894	18,308
Total U.S. Department of Education			<u>1,001,982</u>
U.S. DEPARTMENT OF JUSTICE			
Secure Our Schools	[1]	[2]	<u>(1)</u>
Total U.S. Department of Justice			<u>(1)</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13391	549,727
Especially Needy Breakfast	10.553	13526	147,943
Meals Supplements - Snacks	10.555	13391	22,554
Food Distribution	10.555	13391	16,306
Summer Food Program	10.559	13004	27,141
Subtotal Child Nutrition Cluster			<u>763,671</u>
Total U.S. Department of Agriculture			<u>763,671</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Activities	93.778	10060	2,321
Total Department of Health and Human Services			<u>2,321</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,767,973</u></u>

[1] Catalog number not available

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

ORGANIZATION

The Gustine Unified School District was unified on January 25, 1971, and consists of an area comprising approximately 224 square miles. The District operates two elementary schools, one middle school, one high school, one continuation school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Loretta Rose	President	2016
Pat Rocha	Clerk	2016
Ernie Longoria	Member	2016
Melanie Gomes	Member	2014
Christine Parreira	Member	2014

ADMINISTRATION

Gail McWilliams	Superintendent
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See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2013

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	131.82	133.01
First through third	368.60	368.45
Fourth through sixth	404.74	406.11
Seventh and eighth	257.03	259.63
Special education	12.08	13.09
Total Elementary	<u>1,174.27</u>	<u>1,180.29</u>
SECONDARY		
Regular classes	447.16	445.48
Continuation education	13.60	13.21
Home and hospital	0.64	0.47
Special education	14.18	13.39
Total Secondary	<u>475.58</u>	<u>472.55</u>
Grand Total	<u><u>1,649.85</u></u>	<u><u>1,652.84</u></u>

See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	45,900	44,625	36,000	35,000	57,945	180	N/A	Complied
Grades 1 - 3	45,900	44,625	50,400	49,000				
Grade 1					55,245	180	N/A	Complied
Grade 2					55,245	180	N/A	Complied
Grade 3					55,245	180	N/A	Complied
Grades 4 - 8	56,700	55,125	54,000	52,500				
Grade 4					57,108	180	N/A	Complied
Grade 5					57,108	180	N/A	Complied
Grade 6					57,108	180	N/A	Complied
Grade 7					57,883	180	N/A	Complied
Grade 8					57,883	180	N/A	Complied
Grades 9 - 12	56,700	55,125	64,800	63,000				
Grade 9					68,487	180	N/A	Complied
Grade 10					68,487	180	N/A	Complied
Grade 11					68,487	180	N/A	Complied
Grade 12					68,487	180	N/A	Complied

See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget) 2014 ^{1,4}	2013 ⁴	2012 ⁴	2011 ⁴
GENERAL FUND				
Revenues	\$ 12,817,510	\$ 12,985,609	\$ 13,113,924	\$ 13,233,931
Other sources and transfers in	-	-	50,000	-
Total Revenues and Other Sources ³	12,817,510	12,985,609	13,163,924	13,233,931
Expenditures	13,951,105	13,453,004	13,365,904	12,681,736
Other uses and transfers out	44,465	49,585	97,565	195,139
Total Expenditures and Other Uses ³	13,995,570	13,502,589	13,463,469	12,876,875
INCREASE/(DECREASE) IN FUND BALANCE	\$ (1,178,060)	\$ (516,980)	\$ (299,545)	\$ 357,056
ENDING FUND BALANCE	\$ 1,870,215	\$ 3,048,275	\$ 3,565,255	\$ 3,864,800
AVAILABLE RESERVES²	\$ 442,577	\$ 1,415,589	\$ 1,939,751	\$ 3,266,986
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.2%	10.5%	14.4%	25.4%
LONG-TERM OBLIGATIONS	Not Available	\$ 10,472,121	\$ 10,527,452	\$ 9,982,246
AVERAGE DAILY ATTENDANCE AT P-2	1,663	1,650	1,630	1,639

The General Fund balance has decreased by \$816,525 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$1,178,060(38.6 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2013-2014 fiscal year. The District's available reserves have been depleted by 14.9 percent to 10.5 percent and are budgeted to be just above the State's recommended minimum level of three percent at the end of next fiscal year. Total long-term obligations have increased by \$489,875 over the past two years.

Average daily attendance has increased by 11 ADA over the past two years. An additional increase of 13 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments are excluded from revenues and expenditures in this schedule.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

GUSTINE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 23,597	\$ 58,973	\$ 306,350
Receivables	42,258	133,650	-
Due from other funds	19,940	-	191
Stores inventories	-	12,235	-
Total Assets	\$ 85,795	\$ 204,858	\$ 306,541
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 68	\$ 33,191	\$ 6,549
Due to other funds	2,952	29,107	-
Total Liabilities	3,020	62,298	6,549
Fund Balances:			
Nonspendable	-	12,435	-
Restricted	-	130,125	-
Committed	82,775	-	299,992
Assigned	-	-	-
Total Fund Balances	82,775	142,560	299,992
Total Liabilities and Fund Balances	\$ 85,795	\$ 204,858	\$ 306,541

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Fund	Total Non-Major Governmental Funds
\$ 423,572	\$ 35,480	\$ 847,972
-	-	175,908
-	-	20,131
-	-	12,235
<u>\$ 423,572</u>	<u>\$ 35,480</u>	<u>\$ 1,056,246</u>
\$ 1,225	\$ -	\$ 41,033
-	-	32,059
<u>1,225</u>	<u>-</u>	<u>73,092</u>
-	-	12,435
422,347	-	552,472
-	-	382,767
-	35,480	35,480
<u>422,347</u>	<u>35,480</u>	<u>983,154</u>
<u>\$ 423,572</u>	<u>\$ 35,480</u>	<u>\$ 1,056,246</u>

GUSTINE UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ 20,000	\$ 747,365	\$ -
Other State sources	78,143	60,728	66,973
Other local sources	271	87,717	2,292
Total Revenues	<u>98,414</u>	<u>895,810</u>	<u>69,265</u>
EXPENDITURES			
Current			
Instruction	75,614	-	-
Instruction-related activities:			
School site administration	1,605	-	-
Pupil services:			
Food services	-	795,241	-
Administration:			
All other administration	2,952	29,107	-
Plant services	-	-	18,528
Facility acquisition and construction	-	-	51,498
Total Expenditures	<u>80,171</u>	<u>824,348</u>	<u>70,026</u>
NET CHANGE IN FUND BALANCES	<u>18,243</u>	<u>71,462</u>	<u>(761)</u>
Fund Balance - Beginning	64,532	71,098	300,753
Fund Balance - Ending	<u>\$ 82,775</u>	<u>\$ 142,560</u>	<u>\$ 299,992</u>

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 767,365
(16,462)	-	189,382
3,349	268	93,897
<u>(13,113)</u>	<u>268</u>	<u>1,050,644</u>
-	-	75,614
-	-	1,605
-	-	795,241
-	-	32,059
-	-	18,528
8,452	-	59,950
<u>8,452</u>	<u>-</u>	<u>982,997</u>
(21,565)	268	67,647
443,912	35,212	915,507
<u>\$ 422,347</u>	<u>\$ 35,480</u>	<u>\$ 983,154</u>

GUSTINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of commodities received by the District that are not recorded within the District's Cafeteria Fund.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 1,751,667
Reconciling items:		
Food Distribution	10.555	16,306
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,767,973</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 requirements, whichever is greater, as required by *Education Code* Section 46201.

GUSTINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Gustine Unified School District
Gustine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gustine Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Gustine Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Gustine Unified School District in a separate letter dated December 12, 2013.

Purpose of This Report

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

Vannik, Trini, Day & Co, LLP

Fresno, California
December 12, 2013



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

Governing Board
Gustine Unified School District
Gustine, California

Report on Compliance for Each Major Federal Program

We have audited Gustine Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gustine Unified School District's (the District) major Federal programs for the year ended June 30, 2013. Gustine Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Gustine Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Vannik, Truitt, Day & Co., LLP

Fresno, California
December 12, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Gustine Unified School District
Gustine, California

Report on State Compliance

We have audited Gustine Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of Gustine Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of each of the Gustine Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Gustine Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Gustine Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Gustine Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	No (see below)
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable

We did not perform testing for independent study and continuation education because the ADA from each program was under the level that requires testing.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 12, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GUSTINE UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grant</u>

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

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
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GUSTINE UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

GUSTINE UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

GUSTINE UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

GUSTINE UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

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