

**FONTANA UNIFIED  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2013**



**FONTANA UNIFIED SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2013*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Fontana Unified School District  
Fontana, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District, as of and for the fiscal 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal 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 management's discussion and analysis on pages 3 through 10, budgetary comparison information on pages 48 and 49, and schedule of funding progress on page 50 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.

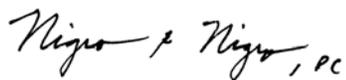
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fontana Unified School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, 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 other 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 November 26, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



November 26, 2013

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
 For the Fiscal Year Ended June 30, 2013

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This discussion and analysis of Fontana Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$13.1 million, or 3.1%.
- Governmental expenses were about \$383.9 million. Revenues were about \$370.8 million.
- The District spent over \$3.0 million on new capital assets during the year. These expenditures were incurred primarily from general obligation bonds. In addition, the District acquired an additional \$7.2 million in capital assets through the E-Rate program, which is recognized as donation income.
- The District decreased its outstanding long-term debt by \$55.8 million. This was primarily due to the repayment of the Bond Anticipation Note, offset by the issuance of general obligation bonds.
- Grades K-12 average daily attendance (ADA) decreased by 132, or 0.3%.

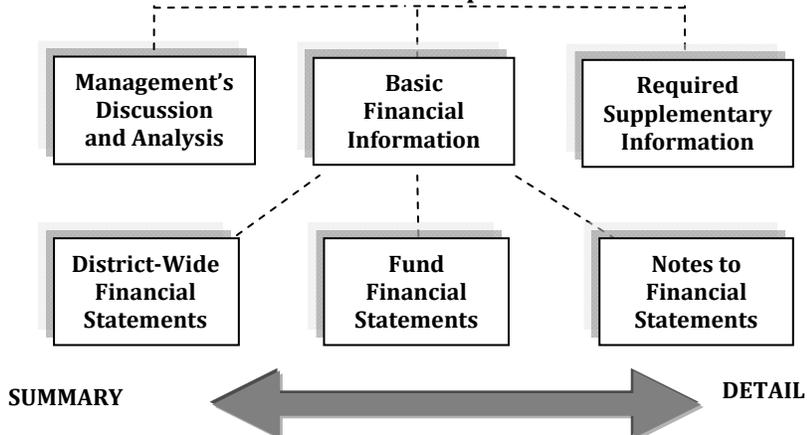
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1. Organization of Fontana Unified School District's Annual Financial Report**



**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2013*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the District-Wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the district that operate like a business, such as self-insurance funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Changes in Net Position</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2013*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

The District has three kinds of funds:

- 1) **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2013*

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**Fund Financial Statements (continued)**

- 2) **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers compensation claims.
- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds and retiree benefits fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's combined net position was lower on June 30, 2013, than it was the year before – decreasing 3.1% to \$411.5 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2013</b>	<b>2012 *</b>	
Current assets	\$ 234.9	\$ 262.0	\$ (27.1)
Noncurrent assets	9.2	4.4	4.8
Capital assets	583.5	595.3	(11.8)
<b>Total assets</b>	<b>827.6</b>	<b>861.7</b>	<b>(34.1)</b>
Current liabilities	69.2	34.4	34.8
Long-term liabilities	346.9	402.7	(55.8)
<b>Total liabilities</b>	<b>416.1</b>	<b>437.1</b>	<b>(21.0)</b>
Net position			
Net investment in capital assets	326.4	337.5	(11.1)
Restricted	86.0	91.3	(5.3)
Unrestricted	(0.9)	(4.2)	3.3
<b>Total net position</b>	<b>\$ 411.5</b>	<b>\$ 424.6</b>	<b>\$ (13.1)</b>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues decreased 2.4% to \$370.8 million (See Table A-2). The decrease is due primarily to decreased funding from federal sources.

The total cost of all programs and services increased 0.8% to \$383.9 million. The District's expenses are predominantly related to educating and caring for students, 76.9%. The purely administrative activities of the District accounted for just 3.3% of total costs. A significant contributor to the increase in costs was an increase in personnel costs.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2013*

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Table A-2**

	<b>Governmental Activities (In millions)</b>		<b>Variance Increase</b>
	<b>2013</b>	<b>2012</b>	<b>(Decrease)</b>
Total Revenues	\$ 370.8	\$ 379.9	\$ (9.1)
Total Expenses	383.9	380.9	3.0
Increase (decrease) in net position	\$ (13.1)	\$ (1.0)	\$ (12.1)

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$166.5 million, which is below last year's ending fund balance of \$226.6 million. The primary cause of the decreased fund balance is the pay off of the Bond Anticipation Note.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$73.2 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$48.2 million due to a decrease in the number of planned furlough days due to state cuts.
- Other non-personnel expenses – increased \$21.9 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$21.8 million, the actual results for the year show that revenues fell short of expenditures by roughly \$6.3 million. Actual revenues were \$50.9 million less than anticipated, and expenditures were \$66.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2013 that will be carried over into the 2013-14 budget.

**Capital Assets**

By the end of 2012-13 the District had invested \$3.0 million in new capital assets, related to the District's ongoing modernization program. In addition, the District received \$7.0 million of equipment through the E-Rate program. (More detailed information about capital assets can be found in Note 7 to the financial statements). Total depreciation expense for the year exceeded \$21.9 million.

**Table A-3: Capital Assets at Year-End, net of depreciation**

	<b>Governmental Activities (In millions)</b>		<b>Variance Increase</b>
	<b>2013</b>	<b>2012 *</b>	<b>(Decrease)</b>
Land	\$ 58.9	\$ 58.9	\$ -
Improvement of sites	37.9	40.6	(2.7)
Buildings	460.5	475.0	(14.5)
Equipment	13.7	8.4	5.3
Construction in progress	12.5	12.4	0.1
Total	\$ 583.5	\$ 595.3	\$ (11.8)

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2013*

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Debt**

At year-end the District had \$346.9 million in general obligation bonds, certificates of participation, QZABs, and employment benefits – a decrease of 13.9% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements).

**Table A-4: Outstanding Long-Term Debt at Year-End**

	<b>Governmental Activities</b>		<b>Variance</b>
	<b>(In millions)</b>		
	<b>2013</b>	<b>2012</b>	<b>Increase</b>
			<b>(Decrease)</b>
General obligation bonds	\$ 259.6	\$ 212.3	\$ 47.3
Bond anticipation notes	-	104.0	(104.0)
Certificates of participation	44.2	45.5	(1.3)
QZAB	3.0	3.2	(0.2)
Compensated absences	1.9	1.8	0.1
Supplemental retirement	2.9	6.9	(4.0)
Other postemployment benefits	35.3	29.0	6.3
<b>Total</b>	<b>\$ 346.9</b>	<b>\$ 402.7</b>	<b>\$ (55.8)</b>

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

**Budget Overview**

The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line-item veto authority to reduce or eliminate non-Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by \$5.6 million.

The state spending plan assumes total budget expenditures of \$138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012-13. This consists of \$96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as \$42 billion from special funds. The budget estimates that spending from federal funds in 2013-14 will total \$87.6 billion, an increase of 7.7 percent over 2012-13.

The administration's May Revision estimates of 2012-13 revenues were about \$2.3 billion higher than when the 2012-13 spending plan was adopted last year. These higher revenues result in \$2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K-14 education. In addition, higher expenditures in other areas contributed to the estimated 2012-13 General Fund ending balance being about \$694 million lower than was assumed in the 2012-13 spending plan. Nevertheless, under the spending plan 2012-13 would end with a \$254 million reserve, the first such year-end positive balance in the reserve since 2007-08.

The spending plan assumes General Fund and Education Protection Account revenues of \$97.1 billion and expenditures of \$96.3 billion. The resulting \$817 million operating surplus combined with the \$254 million positive ending balance for 2012-13 produce an estimated \$1.1 billion reserve for 2013-14.

## FONTANA UNIFIED SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2013*

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### FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

#### Major Spending Changes

For K–12 education, the largest 2013–14 augmentation (\$2.1 billion) is for implementing the Local Control Funding Formula (LCFF) for school districts. Other major 2013–14 K–12 augmentations include \$406 million in grants and loans for energy projects, an additional \$250 million on a one-time basis for the Common Core State Standards initiative, \$250 million on a one-time basis for a new Career Pathways program, \$50 million to augment the mandate block grant, \$32 million to implement the LCFF for county offices of education (COEs), and \$10 million to establish the California Collaborative for Educational Excellence (CCEE) to provide low-performing school districts with academic assistance.

The budget also further pays down K–12 deferrals. Additionally, the budget includes a 1.57 percent cost-of-living adjustment (COLA) for certain K–12 categorical programs. The budget includes a slight increase to reflect 0.2 percent growth in K–12 ADA. The budget also provides a \$26 million (5 percent) increase to the part-day/part-year State Preschool program to support approximately 7,100 new preschool slots.

In 2013–14, despite fewer overall resources compared to 2012–13, much less funding is designated for paying down deferrals. This frees up funds in 2013–14 that can be used for other purposes. In total, the budget includes a \$2.6 billion increase in K–12 ongoing funding. Ongoing funding per student (as measured by ADA) increases from \$7,590 in 2012–13 to \$8,005 in 2013–14—an increase of \$415 (5.5 percent).

#### LCFF for School Districts and Charter Schools

The budget package includes a major restructuring of the state's funding system for school districts and charter schools. The new LCFF system replaces existing funding formulas for revenue limits and most categorical programs with a weighted student funding formula. Over the course of implementation, districts will receive additional funding to reduce the same share of the gap between their existing per-pupil funding rates and their targets under the LCFF. Full implementation of the LCFF is expected to take eight years (with full implementation in 2020–21) and cost \$18 billion (not accounting for future COLA costs). The *2013–14 Budget Act* provides first-year funding of \$2.1 billion. This is expected to close 12 percent of each district's gap.

#### Deferral Paydowns

After four consecutive years of increasing the amount of deferrals for schools and community colleges—reaching a total of \$10.4 billion in outstanding deferrals by the end of 2011–12—the 2012–13 budget plan provided \$2.2 billion to reduce the amount of outstanding deferrals. The recently enacted budget plan makes an additional \$1.8 billion in 2012–13 deferral paydowns as well as \$272 million in paydowns in 2013–14. Under the budget package, \$6.2 billion in outstanding deferrals remain as of the end of 2013–14.

#### Common Core Implementation

The budget plan provides \$1.25 billion in one-time funding to schools for implementation of the CCSS. (Of this amount, the budget plan counts \$1 billion towards meeting the 2012–13 minimum guarantee and \$250 million towards meeting the 2013–14 guarantee.) The CCSS are nationally developed standards for math and English/Language Arts that the state adopted in 2010. Under current law, schools are required to align instruction to the CCSS beginning in 2014–15. The \$1.25 billion in CCSS funding must be spent in 2013–14 or 2014–15 for professional development, instructional materials, and technology that assist schools in aligning instruction to the CCSS. Local governing boards are required in a series of public meetings to discuss and adopt a plan for spending the funds and must report how the funds were spent to the California Department of Education (CDE) by July 1, 2015.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**Proposition 39**

Passed by the voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings.

**Adult Education**

In an effort to improve coordination among adult education providers, the budget provides \$25 million (Proposition 98 General Fund) for a new Adult Education Consortium Program. School districts and community colleges that form a regional consortium are eligible to apply for these funds.

In a related action, the budget package eliminates school districts' adult education categorical program and consolidates all associated annual funding (\$635 million Proposition 98 General Fund) into the school district LCFF. The budget package, however, contains a requirement for school districts (through their adult schools) to maintain at least their 2012-13 level of state spending on adult education in 2013-14 and 2014-15.

**New Career Pathways Program**

The budget provides \$250 million in one-time Proposition 98 funding to create a "California Career Pathways Trust." The primary purpose of the new program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K-14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum.

**Special Education**

The budget package makes three notable changes to special education funding. First, the package simplifies the state's approach to distributing funding to special education local plan areas (SELPAs) by delinking state and federal special education allocation formulas. A conforming change revises the "statewide target rate" used to fund new students to the updated statewide average per-pupil funding rate. Second, the budget provides \$2.6 million in Proposition 98 funds to fully offset federal sequestration funding cuts for preschoolers and infants/toddlers with disabilities and provides \$2.1 million in federal carryover funds to partially mitigate federal sequestration funding cuts for K-12 students with disabilities. Third, the package consolidates 11 special education categorical grants into 5 larger grants.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2013-14 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Fiscal Services Office at (909) 357-7600.

**FONTANA UNIFIED SCHOOL DISTRICT***Statement of Net Position**June 30, 2013*

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	Total Governmental Activities
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 132,443,826
Investments	17,874,987
Accounts receivable	84,186,538
Inventories	134,461
Prepaid expenses	242,070
Total current assets	<u>234,881,882</u>
<b>Noncurrent assets:</b>	
Unamortized debt issuance costs	4,450,028
Deferred charges on refunding	4,702,337
Total noncurrent assets	<u>9,152,365</u>
<b>Capital assets:</b>	
Non-depreciable assets	71,387,654
Depreciable assets	733,226,225
Less accumulated depreciation	<u>(221,082,403)</u>
Total capital assets, net of depreciation	<u>583,531,476</u>
Total assets	<u>827,565,723</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	34,438,643
TRAN payable	29,915,000
Deferred revenue	4,800,048
Total current liabilities	<u>69,153,691</u>
<b>Long-term liabilities:</b>	
Portion due or payable within one year	14,348,993
Portion due or payable after one year	332,513,684
Total long-term liabilities	<u>346,862,677</u>
Total liabilities	<u>416,016,368</u>
 <b>NET POSITION</b>	
Net investment in capital assets	326,365,546
Restricted for:	
Capital projects	41,275,968
Debt service	18,689,184
Educational programs	26,075,538
Unrestricted	<u>(856,881)</u>
Total net position	<u>\$ 411,549,355</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2013*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities</b>					
Instructional Services:					
Instruction	\$ 209,503,059	\$ 700,254	\$ 47,496,268	\$ 129,376	\$ (161,177,161)
Instruction-Related Services:					
Supervision of instruction	20,985,425	154,873	17,013,704	-	(3,816,848)
Instructional library, media and technology	3,662,237	-	897	-	(3,661,340)
School site administration	22,046,914	2,811	489,199	-	(21,554,904)
Pupil Support Services:					
Home-to-school transportation	3,991,368	18,386	1,436,289	-	(2,536,693)
Food services	18,725,529	2,019,497	19,257,163	-	2,551,131
All other pupil services	16,153,604	31,280	3,964,111	-	(12,158,213)
General Administration Services:					
Data processing services	4,850,097	-	-	-	(4,850,097)
Other general administration	7,950,614	135,455	2,016,483	-	(5,798,676)
Plant services	38,788,043	104,670	290,395	-	(38,392,978)
Ancillary services	30,840	-	-	-	(30,840)
Community services	503,092	91,756	6,043	-	(405,293)
Interest on long-term debt	13,768,574	-	-	-	(13,768,574)
Other outgo	965,699	3,042,470	201,268	-	2,278,039
Depreciation (unallocated)	21,944,308	-	-	-	(21,944,308)
Total Governmental Activities	\$ 383,869,403	\$ 6,301,452	\$ 92,171,820	\$ 129,376	(285,266,755)

**General Revenues:**

Property taxes	39,214,227
Federal and state aid not restricted to specific purpose	222,051,098
Interest and investment earnings	912,911
Donated equipment	7,215,674
Miscellaneous	2,764,245
Total general revenues	272,158,155
Change in net position	(13,108,600)
Net position - July 1, 2012, as originally stated	427,169,805
Adjustment for restatement	(2,511,850)
Net position - July 1, 2012, as restated	424,657,955
Net position - June 30, 2013	\$ 411,549,355

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2013*

	General Fund	Cafeteria Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 58,627,252	\$ 10,665,652	\$ 519,680	\$ 4,882,244	\$ 49,754,487	\$ 124,449,315
Investments	-	-	-	17,874,987	-	17,874,987
Accounts receivable	76,732,704	6,091,936	395	108,801	1,246,731	84,180,567
Due from other funds	1,804,969	7,450	-	13,018,550	13,862,759	28,693,728
Inventories	15,248	119,213	-	-	-	134,461
Prepaid expenditures	242,070	-	-	-	-	242,070
Total Assets	<u>\$ 137,422,243</u>	<u>\$ 16,884,251</u>	<u>\$ 520,075</u>	<u>\$ 35,884,582</u>	<u>\$ 64,863,977</u>	<u>\$ 255,575,128</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 23,886,812	\$ 223,012	\$ 12,547	\$ 535,522	\$ 936,243	\$ 25,594,136
TRAN payable	29,915,000	-	-	-	-	29,915,000
Due to other funds	26,431,570	1,299,213	507,528	-	501,772	28,740,083
Deferred revenue	4,310,821	-	-	-	489,227	4,800,048
Total Liabilities	<u>84,544,203</u>	<u>1,522,225</u>	<u>520,075</u>	<u>535,522</u>	<u>1,927,242</u>	<u>89,049,267</u>
<b>Fund Balances</b>						
Nonspendable	332,318	129,528	-	-	-	461,846
Restricted	10,560,485	15,232,498	-	35,349,060	60,247,707	121,389,750
Committed	-	-	-	-	2,627,174	2,627,174
Assigned	6,144,811	-	-	-	61,854	6,206,665
Unassigned	35,840,426	-	-	-	-	35,840,426
Total Fund Balances	<u>52,878,040</u>	<u>15,362,026</u>	<u>-</u>	<u>35,349,060</u>	<u>62,936,735</u>	<u>166,525,861</u>
Total Liabilities and Fund Balances	<u>\$ 137,422,243</u>	<u>\$ 16,884,251</u>	<u>\$ 520,075</u>	<u>\$ 35,884,582</u>	<u>\$ 64,863,977</u>	<u>\$ 255,575,128</u>

*The notes to financial statements are an integral part of this statement.*

# FONTANA UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2013

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**Total fund balances - governmental funds** \$ 166,525,861

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

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

Capital assets at historical cost:	804,613,879	
Accumulated depreciation:	<u>(221,082,403)</u>	
Net:		583,531,476

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included on the statement of net position are:

4,450,028

Deferred charges on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as an asset. The remaining deferred charges on refunding at the end of the period were:

4,702,337

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:

(3,531,802)

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

General obligation bonds payable	259,616,421	
Certificates of participation payable	44,226,431	
QZAB bonds payable	2,996,337	
Compensated absences	1,831,285	
Supplemental early retirement	2,893,874	
Other postemployment benefits payable	<u>35,298,329</u>	
Total		(346,862,677)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service fund is:

2,734,132

**Total net position - governmental activities** \$ 411,549,355

## FONTANA UNIFIED SCHOOL DISTRICT

### Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2013

	General Fund	Cafeteria Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Revenue limit sources	\$ 206,283,007	\$ -	\$ -	\$ -	\$ -	\$ 206,283,007
Federal sources	25,625,244	18,700,368	-	-	1,855,174	46,180,786
Other state sources	71,305,809	1,438,874	-	-	5,363,656	78,108,339
Other local sources	5,038,047	2,195,752	484,020	4,604,515	20,650,662	32,972,996
Total Revenues	308,252,107	22,334,994	484,020	4,604,515	27,869,492	363,545,128
<b>EXPENDITURES</b>						
Current:						
Instruction	200,486,707	-	-	-	5,243,392	205,730,099
Instruction-related services:						
Supervision of instruction	19,041,988	-	-	-	1,660,211	20,702,199
Instructional library, media and technology	3,525,627	-	-	-	-	3,525,627
School site administration	21,222,456	-	-	-	219,447	21,441,903
Pupil support services:						
Home-to-school transportation	3,907,867	-	-	-	-	3,907,867
Food services	26,984	18,509,274	-	-	2,617	18,538,875
All other pupil services	15,607,559	-	-	-	250,026	15,857,585
Ancillary services	30,840	-	-	-	-	30,840
Community services	503,092	-	-	-	-	503,092
General administration services:						
Data processing services	4,785,352	-	-	-	-	4,785,352
Other general administration	9,161,281	-	-	-	50,396	9,211,677
Plant services	36,053,003	198,652	338,282	155,103	1,583,294	38,328,334
Transfers of indirect costs	(1,008,211)	731,685	-	-	276,526	-
Intergovernmental	43,066	-	-	-	-	43,066
Capital outlay	330,802	209,094	598,476	605,575	1,261,270	3,005,217
Debt service:						
Issuance costs	816,761	-	213,017	(42,178)	1,346,802	2,334,402
Principal	-	-	94,997,120	1,235,000	4,721,771	100,953,891
Interest	-	-	11,013,208	2,015,763	10,301,255	23,330,226
Total Expenditures	314,535,174	19,648,705	107,160,103	3,969,263	26,917,007	472,230,252
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,283,067)	2,686,289	(106,676,083)	635,252	952,485	(108,685,124)
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund transfers in	-	-	3,151,968	7,390,520	310,106	10,852,594
Interfund transfers out	(1,397)	-	(2,699,230)	-	(8,151,967)	(10,852,594)
Premium on bond issuance	-	-	-	-	9,340,249	9,340,249
Proceeds from bond issuances	-	-	47,259,440	-	78,115,000	125,374,440
Transfer to escrow agent for defeased debt	-	-	-	-	(86,108,447)	(86,108,447)
Total Other Financing Sources and Uses	(1,397)	-	47,712,178	7,390,520	(6,495,059)	48,606,242
Net Change in Fund Balances	(6,284,464)	2,686,289	(58,963,905)	8,025,772	(5,542,574)	(60,078,882)
Fund Balances, July 1, 2012	59,162,504	12,675,737	58,963,905	27,323,288	68,479,309	226,604,743
Fund Balances, June 30, 2013	\$ 52,878,040	\$ 15,362,026	\$ -	\$ 35,349,060	\$ 62,936,735	\$ 166,525,861

# FONTANA UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2013

### Total net change in fund balances - governmental funds

Amounts reported for governmental *activities* in the statement of activities are different because: \$ (60,078,882)

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:

Expenditures for capital outlay	3,005,216	
Depreciation expense	<u>(21,944,308)</u>	
Net:		(18,939,092)

In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as a revenue and as increases to capital assets at their fair market value on the date of donation. The fair market value of capital assets donated during the year was: 7,215,674

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (35,467)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were: 179,136,009

In governmental funds, proceeds from bond issuances are reported as other financing sources. In the government-wide statements, proceeds from debt issuances are reported as a liability. Proceeds from bond issuances plus premiums for the year were: (134,714,689)

Deferred charges on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the governmental funds these charges are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the refunded debt. The difference between the current year charges and current year amortization is: 4,702,337

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Additions to unamortized debt issue costs for the year, less debt issue costs amortized for the period were: 107,201

In governmental funds, if debt is issued at a premium or at a discount, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was: 5,953,896

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest earned less accreted interest paid during the year was: 7,761,804

In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 577,178

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (63,233)

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time. This year, such liabilities decreased by: 4,000,612

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statements of activities costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was: (6,212,215)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (2,519,733)

**Change in net position of governmental activities** **\$ (13,108,600)**

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Net Position – Proprietary Fund*  
*June 30, 2013*

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	<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>	
Cash	\$ 7,994,511
Accounts receivable	5,971
Due from other funds	<u>54,810</u>
Total assets	<u>8,055,292</u>
<b>LIABILITIES</b>	
Estimated liability for open claims and IBNRs	5,219,728
Accounts payable	92,977
Due to other funds	<u>8,455</u>
Total liabilities	<u>5,321,160</u>
<b>NET POSITION</b>	
Restricted	<u><u>\$ 2,734,132</u></u>

**FONTANA UNIFIED SCHOOL DISTRICT***Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund  
For the Fiscal Year Ended June 30, 2013*

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	<b>Governmental Activities Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Self-insurance premiums	\$ 211,641
Other local revenues	<u>157,612</u>
Total operating revenues	<u>369,253</u>
<b>OPERATING EXPENSES</b>	
Payments for personnel costs	267,248
Payments for materials and supplies	2,861
Payments for claims and other operating expenses	<u>2,655,683</u>
Total operating expenses	<u>2,925,792</u>
<b>OPERATING INCOME (LOSS)</b>	(2,556,539)
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>36,806</u>
Change in net position	(2,519,733)
Net position, July 1, 2012	<u>5,253,865</u>
Net position, June 30, 2013	<u><u>\$ 2,734,132</u></u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Cash Flows – Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2013*

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Self-insurance premiums	\$ 211,641
Cash received from other local sources	162,070
Other operating transfers	(69,937)
Cash paid for operating expenses	<u>(1,917,019)</u>
Net cash used by operating activities	(1,613,245)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>42,666</u>
Net decrease in cash	(1,570,579)
Cash, July 1, 2012	<u>9,565,090</u>
Cash, June 30, 2013	<u><u>\$ 7,994,511</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (2,556,539)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Changes in operating assets and liabilities:	
Decrease in accounts receivable	4,459
Increase in amounts due from other funds	(21,401)
Increase in accounts payable and estimated claims liability	1,008,772
Decrease in amounts due to other funds	<u>(48,536)</u>
Net cash used by operating activities	<u><u>\$ (1,613,245)</u></u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Net Position – Fiduciary Funds*  
*June 30, 2013*

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	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 1,524,963	\$ 1	\$ 1,524,964
Investments	-	7,543,807	7,543,807
Accounts receivable	3,054	-	3,054
Inventories - supplies and materials	115,355	-	115,355
Prepaid expenses	6,407	-	6,407
Total assets	<u>\$ 1,649,779</u>	<u>7,543,808</u>	<u>9,193,587</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 97,017	4,979,302	5,076,319
Due to student groups	1,552,762	-	1,552,762
Total liabilities	<u>\$ 1,649,779</u>	<u>4,979,302</u>	<u>6,629,081</u>
<b>NET POSITION</b>			
Restricted		<u>\$ 2,564,506</u>	<u>\$ 2,564,506</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Changes in Net Position – Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2013*

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	<b>Trust Fund</b>
	<b>Retiree Benefits Fund</b>
<b>ADDITIONS</b>	
Interest	\$ 292,499
Increase in fair value of investments	463,174
In-district contributions	<u>5,225,255</u>
Total Additions	5,980,928
<b>DEDUCTIONS</b>	
Operating expenses	<u>5,066,536</u>
Change in net position	914,392
Net position - July 1, 2012	<u>1,650,114</u>
Net position - June 30, 2013	<u><u>\$ 2,564,506</u></u>

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The accompanying financial statements present the activities of Fontana Unified School District and its component units, legally separate organizations for which the District is financially accountable. These component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Education also serves as the governing board for the Public Financing Authority and the Community Facilities Districts. Although the board members of the Public Facilities Corporation are appointed by the District Board, the corporation exists solely to finance the acquisition and construction of equipment and facilities for the District.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because:</u>	<u>Separate Financial Statements</u>
<b>Fontana USD Public Financing Authority</b> was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated May 1, 2007.	Board of Education composes board of Financing Authority	Not prepared.
<b>Community Facilities Districts (CFD):</b> The District has entered into various agreements with developers to establish CFDs. The purpose of the agreements is to provide for the collection of special taxes to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs.	Board of Education composes board of CFD	Not prepared.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. Basis of Presentation, Basis of Accounting

##### 1. Basis of Presentation

###### Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

###### Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

###### Major Governmental Funds

The District reports the following major governmental funds:

**General Fund:** This fund is used to account for and report all financial resources not accounted for and reported in another fund.

**Cafeteria Fund:** This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

**Building Fund:** This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds and bond anticipation notes.

**Capital Projects Fund for Blended Component Units:** This fund is used to account for the activity of the certificates of participation and the Community Facilities Districts.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 1. Basis of Presentation (continued)

###### Non-Major Governmental Funds

The District reports the following non-major governmental funds:

###### Special Revenue Funds:

**Adult Education Fund:** This fund is used to account for resources committed to adult education programs maintained by the District.

**Child Development Fund:** This fund is used to account for resources committed to child development programs maintained by the District.

**Deferred Maintenance Fund:** This fund is used to account for resources committed to major repair or replacement of District property.

###### Capital Projects Funds:

**Capital Facilities Fund:** This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

**County School Facilities Fund:** This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

**Special Reserve Fund for Capital Outlay Projects:** This fund is used to account for funds set aside for Board designated construction projects.

###### Debt Service Fund:

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

###### Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

**Self-Insurance Fund:** This fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers' compensation program that is accounted for in a self-insurance service fund.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 1. Basis of Presentation (continued)

###### **Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

**Agency Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

**Retiree Benefits Fund:** This fund is used to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments or both.

##### 2. Measurement Focus, Basis of Accounting

###### **Government-Wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

###### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

#### C. Budgets and Budgetary Accounting

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

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2013

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### C. Budgets and Budgetary Accounting (continued)

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund and the Cafeteria Fund in the required supplementary information section.

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

##### D. Encumbrances

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

##### E. Assets, Liabilities, and Net Position

###### 1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments". Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

###### 2. Cash and Cash Equivalents

The District considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

###### 3. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

###### 4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2013*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Liabilities, and Net Position (continued)**

**5. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

**6. Compensated Absences**

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**7. Fund Balances**

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Assets, Liabilities, and Net Position (continued)

##### 7. Fund Balances (continued)

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

#### F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

#### G. New GASB Pronouncements

During the 2012-13 fiscal year, the following GASB Pronouncements became effective:

**GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements:***

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

**GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34:***

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2013

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### G. New GASB Pronouncements (continued)

**GASB Statement No. 61 (continued)** This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government.

**GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*:** The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.”

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

**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 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.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2013

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**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2013 are reported at fair value and consisted of the following:

	Rating	Governmental Activities		Fiduciary Funds	
		Governmental Funds	Proprietary Fund		Total
<b>Pooled Funds:</b>					
Cash in County Treasury		\$ 124,364,000	\$ 7,844,511	\$ 132,208,511	\$ 1
<b>Deposits:</b>					
Cash on hand and in banks		-	-	-	1,524,963
Cash in revolving fund		85,315	150,000	235,315	-
<b>Total Deposits</b>		<b>85,315</b>	<b>150,000</b>	<b>235,315</b>	<b>1,524,963</b>
<b>Total Cash</b>		<b>\$ 124,449,315</b>	<b>\$ 7,994,511</b>	<b>\$ 132,443,826</b>	<b>\$ 1,524,964</b>
<b>Investments:</b>					
US Bank Money Market	A-1+	\$ 17,874,987	\$ -	\$ 17,874,987	\$ -
<b>Benefit-Trust:</b>					
<b>Fixed Income:</b>					
Delaware Diversified Income Institutional					694,020
Legg Mason BW Global Opportunities BD IS					286,621
Metropolitan West Total Return Bond I					728,309
Oppenheimer International Bond Y					339,618
Prudential Total Return Bond Z					706,585
Templeton Global Bond Adv Fund					672,958
Western Asset Core Plus Bond I					706,968
<b>Equities:</b>					
Black Rock Equity Dividend Institutional					325,679
Brandes Institutional International Equity I					310,742
Cohen & Steers Institutional Realty Shares					222,512
JHancock Classic Value I					386,540
Hartford Capital Appreciation Y					460,755
Hartford Midcap Y					176,144
Nuveen Tradewinds Value Opportunities I					244,188
Nuveen Tradewinds Global All-Cap I					216,461
Prudential Global Real Estate Z					78,860
Royce Global Value Invmt					350,645
Royce Special Equity Institutional					167,448
Thornburg Investment Income Builder					230,087
Thornburg International Value I					226,480
Various					12,187
<b>Total Investments</b>					<b>\$ 7,543,807</b>

Investment security ratings reported as of June 30, 2013 are defined by Standard and Poors.

## FONTANA UNIFIED SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2013*

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#### **NOTE 2 – CASH AND INVESTMENTS (continued)**

##### **Pooled Funds**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2013, \$1,036,720 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

##### **Investments - Interest Rate Risk**

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2013

**NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2013 consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 17,874,987	\$ 17,874,987	\$ -
Benefit-Trust:			
Fixed Income:			
Delaware Diversified Income Institutional	694,020	694,020	-
Legg Mason BW Global Opportunities Bd IS	286,621	286,621	-
Metropolitan West Total Return Bond I	728,309	728,309	-
Oppenheimer International Bond Y	339,618	339,618	-
Prudential Total Return Bond Z	706,585	706,585	-
Templeton Global Bond Adv Fund	672,958	672,958	-
Western Asset Core Plus Bond I	706,968	706,968	-
Equities:			
Black Rock Equity Dividend Institutional	325,679	325,679	-
Brandes Institutional International Equity I	310,742	310,742	-
Cohen & Steers Institutional Realty Shares	222,512	222,512	-
JHancock Classic Value I	386,540	386,540	-
Hartford Capital Appreciation Y	460,755	460,755	-
Hartford Midcap Y	176,144	176,144	-
Nuveen Tradewinds Value Opportunities I	244,188	244,188	-
Nuveen Tradewinds Global All-Cap I	216,461	216,461	-
Prudential Global Real Estate Z	78,860	78,860	-
Royce Global Value Invmt	350,645	350,645	-
Royce Special Equity Institutional	167,448	167,448	-
Thornburg Investment Income Builder	230,087	230,087	-
Thornburg International Value I	226,480	226,480	-
Various	12,187	12,187	-
Total	\$ 25,418,794	\$ 25,418,794	\$ -

**Investments - Credit Risk**

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2013, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**Investments - Concentration of Credit Risk**

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2013, the District had the following investment that represented more than five percent of the District's net investments.

US Bank Money Market	70.3%
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**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2013

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2013 consisted of the following:

	Governmental Funds					Totals	Proprietary Fund
	General Fund	Cafeteria Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds		Self Insurance Fund
Federal Government:							
Categorical aid programs	\$ 7,807,750	\$ 5,619,857	\$ -	\$ -	\$ 475,451	\$ 13,903,058	\$ -
State Government:							
Revenue limit	42,262,373	-	-	-	-	42,262,373	-
Lottery	3,204,301	-	-	-	-	3,204,301	-
Special education	6,491,677	-	-	-	-	6,491,677	-
Categorical aid programs	7,291,110	-	-	-	-	7,291,110	-
Other state resources	3,542,462	459,499	-	-	362,298	4,364,259	-
Local:							
Interest	23,524	8,546	395	108,801	28,774	170,040	5,971
Trust reimbursement	4,975,330	-	-	-	-	4,975,330	-
Miscellaneous	996,311	4,034	-	-	-	1,000,345	-
Other local resources	137,866	-	-	-	380,208	518,074	-
<b>Total</b>	<b>\$ 76,732,704</b>	<b>\$ 6,091,936</b>	<b>\$ 395</b>	<b>\$ 108,801</b>	<b>\$ 1,246,731</b>	<b>\$ 84,180,567</b>	<b>\$ 5,971</b>

**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2013 consisted of the following:

	Due From Other Funds					Total
	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 5,581	\$ 12,511,022	\$ 13,862,759	\$ 52,208	\$ 26,431,570
Cafeteria Fund	1,297,885	-	-	-	1,328	1,299,213
Building Fund	-	-	507,528	-	-	507,528
Non-Major Governmental Funds	498,629	1,869	-	-	1,274	501,772
Proprietary Fund	8,455	-	-	-	-	8,455
<b>Total</b>	<b>\$ 1,804,969</b>	<b>\$ 7,450</b>	<b>\$ 13,018,550</b>	<b>\$ 13,862,759</b>	<b>\$ 54,810</b>	<b>\$ 28,748,538</b>

The balance of \$12,511,022 due to the Capital Project Fund for Blended Component Units from the General Fund is for a temporary cash loan and interest. The \$13,541,806 due to the Special Reserve Fund for Capital Outlay represents the RDA distribution, repayment of a temporary loan and interest. The \$1,297,733 is due to the General Fund from the Cafeteria Fund for reimbursements incurred on behalf of the Cafeteria Fund and indirect costs.

**B. Transfers To/From Other Funds**

Transfers to/from other funds for the fiscal year ended June 30, 2013 consisted of the following:

	Interfund Transfers In			Total
	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,397	\$ 1,397
Building Fund	-	2,390,521	308,709	2,699,230
Non-major Governmental Funds	3,151,968	4,999,999	-	8,151,967
<b>Total</b>	<b>\$ 3,151,968</b>	<b>\$ 7,390,520</b>	<b>\$ 310,106</b>	<b>\$ 10,852,594</b>

## FONTANA UNIFIED SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2013*

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#### **NOTE 4 - INTERFUND TRANSACTIONS (continued)**

##### **B. Transfers To/From Other Funds (continued)**

An amount of \$4,999,999 was transferred from the County School Facilities Fund to the Capital Projects Fund for Blended Component Units for the Jurupa Hills High School project. An amount of \$3,151,968 was transferred from the County School Facilities Fund to the Building Fund for the Jurupa Hills High School project.

#### **NOTE 5 - TAX REVENUE ANTICIPATION NOTES**

The District issued \$29,830,000 of Tax Revenue Anticipation Notes dated July 2, 2012 through the California School Cash Reserve Program Authority. The notes matured on February 1, 2013 and had a stated rate of 2% interest.

The District issued \$29,915,000 of Tax Revenue Anticipation Notes dated February 20, 2013 through the California School Cash Reserve Program Authority. The notes matured on October 1, 2013 and had a stated rate of 2% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that certain amounts be deposited in a special fund. The monies were required to remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes.

#### **NOTE 6 - FUND BALANCES**

##### **Minimum Fund Balance Policy**

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Education.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Education. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Education. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Education delegates authority to assign fund balance for a specific purpose to the Associate Superintendent, Business Services of the District with notification at the next scheduled Board Meeting to the Board of Education.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The District currently adheres to the state mandated minimal level of fund balance as outlined in Title V of the California Code of Regulations Section 15443, Reserve.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2013

**NOTE 6 – FUND BALANCES (continued)**

At June 30, 2013, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 75,000	\$ 10,315	\$ -	\$ -	\$ 85,315
Inventories	15,248	119,213	-	-	134,461
Prepaid expenditures	242,070	-	-	-	242,070
Total Nonspendable	332,318	129,528	-	-	461,846
<b>Restricted:</b>					
Categorical programs	10,560,485	-	-	282,555	10,843,040
Food service program	-	15,232,498	-	-	15,232,498
Capital projects	-	-	35,349,060	41,275,968	76,625,028
Debt service	-	-	-	18,689,184	18,689,184
Total Restricted	10,560,485	15,232,498	35,349,060	60,247,707	121,389,750
<b>Committed:</b>					
Adult education program	-	-	-	425,046	425,046
Deferred maintenance program	-	-	-	2,202,128	2,202,128
Total Committed	-	-	-	2,627,174	2,627,174
<b>Assigned:</b>					
Other assignments	6,144,811	-	-	61,854	6,206,665
Total Assigned	6,144,811	-	-	61,854	6,206,665
<b>Unassigned:</b>					
Reserve for economic uncertainties	12,578,571	-	-	-	12,578,571
Remaining unassigned balances	23,261,855	-	-	-	23,261,855
Total Unassigned	35,840,426	-	-	-	35,840,426
<b>Total</b>	<b>\$ 52,878,040</b>	<b>\$ 15,362,026</b>	<b>\$ 35,349,060</b>	<b>\$ 62,936,735</b>	<b>\$ 166,525,861</b>

**NOTE 7 – CAPITAL ASSETS AND DEPRECIATION**

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

	Balance, July 1, 2012	Additions	Retirements	Balance, June 30, 2013
<b>Capital assets not being depreciated:</b>				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	12,365,232	145,120	-	12,510,352
Total capital assets not being depreciated	71,242,534	145,120	-	71,387,654
<b>Capital assets being depreciated:</b>				
Improvement of sites	66,172,799	981,622	-	67,154,421
Buildings	622,203,205	1,081,439	-	623,284,644
Equipment	34,929,983	8,012,709	155,532	42,787,160
Total capital assets being depreciated	723,305,987	10,075,770	155,532	733,226,225
<b>Accumulated depreciation for:</b>				
Improvement of sites	(25,567,216)	(3,686,180)	-	(29,253,396)
Buildings	(147,150,088)	(15,573,458)	-	(162,723,546)
Equipment	(26,540,856)	(2,684,670)	(120,065)	(29,105,461)
Total accumulated depreciation	(199,258,160)	(21,944,308)	(120,065)	(221,082,403)
Total capital assets being depreciated, net	524,047,827	(11,868,538)	35,467	512,143,822
<b>Governmental activity capital assets, net</b>	<b>\$ 595,290,361</b>	<b>\$ (11,723,418)</b>	<b>\$ 35,467</b>	<b>\$ 583,531,476</b>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2013*

**NOTE 8 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2013 were as follows:

	Balance, July 1, 2012 as originally stated	Restatements	Balance, July 1, 2012 as restated	Additions	Deductions	Balance, June 30, 2013	Amount Due Within One Year
<b>General Obligation Bonds:</b>							
Principal repayments	\$ 186,786,323	\$ -	\$ 186,786,323	\$ 125,374,440	\$ 82,656,262	\$ 229,504,501	\$ 6,979,566
Accreted interest component	14,377,558	-	14,377,558	2,815,379	2,868,738	14,324,199	2,965,434
Unamortized issuance premium	11,105,811	-	11,105,811	9,340,249	4,658,339	15,787,721	862,852
Total - Bonds	212,269,692	-	212,269,692	137,530,068	90,183,339	259,616,421	10,807,852
<b>Bond Anticipation Notes:</b>							
Principal repayments	94,997,120	-	94,997,120	-	94,997,120	-	-
Accreted interest component	7,708,445	-	7,708,445	1,894,435	9,602,880	-	-
Unamortized issuance premium	1,270,492	-	1,270,492	-	1,270,492	-	-
Total - BANs	103,976,057	-	103,976,057	1,894,435	105,870,492	-	-
<b>Certificates of Participation:</b>							
Principal repayments	44,910,000	-	44,910,000	-	1,235,000	43,675,000	1,295,000
Unamortized issuance premium	576,496	-	576,496	-	25,065	551,431	25,065
Total - Certificates of Participation	45,486,496	-	45,486,496	-	1,260,065	44,226,431	1,320,065
Qualified Zone Academy Bond	3,243,964	-	3,243,964	-	247,627	2,996,337	247,628
Compensated Absences	1,768,052	-	1,768,052	63,233	-	1,831,285	-
Supplemental Early Retirement	6,894,486	-	6,894,486	-	4,000,612	2,893,874	1,973,448
Other Postemployment Benefits	26,574,264	2,511,850	29,086,114	6,212,215	-	35,298,329	-
Totals	\$ 400,213,011	\$ 2,511,850	\$ 402,724,861	\$ 145,699,951	\$ 201,562,135	\$ 346,862,677	\$ 14,348,993

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the Capital Projects Fund for Blended Component Units. QZAB payments are made by the Special Reserve Fund for Capital Outlay Projects. SERP liabilities are paid from the General Fund. Accumulated vacation will be paid for by the fund for which the employee worked.

**A. General Obligation Bonds**

**Election of 2006**

On June 6, 2006, an election was held where the registered voters in the District approved by a fifty-five percent majority the issuance and sale of \$275 million principal amount of general obligation bonds. The bonds are being issued to acquire, construct, renovate and equip certain District facilities. As of June 30, 2013, there are three bond issuances outstanding from this authorization: the Series A, Series B, and Series C Bonds. The Bonds are general obligations of the District, and the County is empowered and obligated to levy ad valorem taxes upon all property within the District subject to taxation for the payment of interest on and principal of the Bonds when due.

**Prior Years' Refunding Bonds**

In prior years the District has issued refunding bonds for the purposes of defeasing previously issued bonds. The previously issued refunding bonds are the 1992 Refunding Bonds, the 1997 Refunding Bonds, Series A, the 2004 Refunding Bonds, and the 2009 Refunding Bonds. The net proceeds of these bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. As of June 30, 2013, the principal balance outstanding on the previously defeased debt has been fully paid.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

### NOTE 8 - GENERAL LONG-TERM DEBT (continued)

#### A. General Obligation Bonds (continued)

##### 2012 Refunding General Obligation Bonds

On October 25, 2012, the District issued \$78,115,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from August 1, 2013 through August 1, 2031. The net proceeds of \$86,108,447 (after premiums of \$9,340,249 and issuance costs of \$1,346,802) were used to prepay a portion of the District's outstanding General Obligation Bonds Series 2006 A.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding as of June 30, 2013 of \$4,702,337 remain to be amortized. As of June 30, 2013, the principal balance outstanding on the defeased debt amounted to \$78,215,000.

The refunding decreased the District's total debt service payments by \$19,531,646. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$12,592,901.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2012	Additions	Deductions	Advance Refundings	Balance, June 30, 2013
1992A	8/1/1992	2018	2.9%-5.4%	\$ 23,668,126	\$ 1,426,263	\$ -	\$ 505,664	\$ -	\$ 920,599
1997R	6/18/1997	2018	4.40%-5.95%	18,670,227	4,634,151	-	805,598	-	3,828,553
2004R	6/17/2004	2020	3.0%-5.0%	18,930,000	13,075,000	-	1,175,000	-	11,900,000
2006A	8/10/2006	2031	4.0%-5.25%	90,000,000	82,665,000	-	100,000	78,215,000	4,350,000
2006B	3/11/2008	2033	3.0% - 5.25%	70,585,909	70,020,909	-	775,000	-	69,245,909
2006C	10/25/2012	2044	5.0%-5.75%	47,259,440	-	47,259,440	-	-	47,259,440
2009R	2/11/2009	2022	3.0% - 5.25%	18,110,000	14,965,000	-	1,080,000	-	13,885,000
2012R	10/25/2012	2031	2.0%-5.0%	78,115,000	-	78,115,000	-	-	78,115,000
					<u>\$ 186,786,323</u>	<u>\$ 125,374,440</u>	<u>\$ 4,441,262</u>	<u>\$ 78,215,000</u>	<u>\$ 229,504,501</u>
Accreted Interest									
				1992A	3,552,618	\$ 323,766	\$ 1,374,336	\$ -	\$ 2,502,048
				1997R	7,781,476	860,007	1,494,402	-	7,147,081
				2006B	3,043,464	937,783	-	-	3,981,247
				2006C	-	693,823	-	-	693,823
					<u>\$ 14,377,558</u>	<u>\$ 2,815,379</u>	<u>\$ 2,868,738</u>	<u>\$ -</u>	<u>\$ 14,324,199</u>

**FONTANA UNIFIED SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2013***NOTE 8 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)**

The annual requirements to amortize general obligation bonds outstanding at June 30, 2013 is as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ 6,979,566	\$ 10,554,646	\$ 17,534,212
2014-15	6,492,517	10,536,958	17,029,475
2015-16	7,037,184	8,959,028	15,996,212
2016-17	7,771,175	8,831,713	16,602,888
2017-18	8,546,800	8,586,600	17,133,400
2018-23	47,271,910	28,750,479	76,022,389
2023-28	63,080,000	14,370,988	77,450,988
2028-33	34,580,597	31,179,775	65,760,372
2033-38	24,292,929	66,907,071	91,200,000
2038-43	19,333,903	72,766,097	92,100,000
2043-45	4,117,920	19,882,080	24,000,000
Total	<u>\$ 229,504,501</u>	<u>\$ 281,325,435</u>	<u>\$ 510,829,936</u>

**B. Certificates of Participation**

On April 25, 2007 the District issued \$49,910,000 in certificates of participation through the Fontana Unified School District Public Financing Authority for the purpose of providing funds for the construction and improvement of certain school facilities. Payments will be financed through CFD resources.

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ 1,295,000	\$ 1,970,678	\$ 3,265,678
2014-15	1,365,000	1,922,466	3,287,466
2015-16	1,435,000	1,870,819	3,305,819
2016-17	1,505,000	1,811,931	3,316,931
2017-18	1,595,000	1,740,075	3,335,075
2018-23	9,535,000	7,360,625	16,895,625
2023-28	11,665,000	4,785,925	16,450,925
2028-33	7,875,000	2,442,937	10,317,937
2033-36	7,405,000	649,238	8,054,238
Total	<u>\$ 43,675,000</u>	<u>\$ 24,554,694</u>	<u>\$ 68,229,694</u>

**C. Qualified Zone Academy Bond**

On April 1, 2005, the District entered into a site lease agreement with the California School Boards Association Finance Corporation. The purpose of the agreement is to provide financing for the cost of purchasing equipment and certain improvements to property. The financing for the improvements is provided by the issuance of Qualified Zone Academy Bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code.

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2013*

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**NOTE 8 – GENERAL LONG-TERM DEBT (continued)**

**C. Qualified Zone Academy Bond (continued)**

Lease payments will be required as follows:

<u>Fiscal Year</u>	<u>Scheduled Deposit</u>	<u>Accumulated Interest</u>	<u>Total</u>
2013-14	\$ 247,628	\$ 66,591	\$ 314,219
2014-15	247,627	76,079	323,706
2015-16	247,628	85,877	333,505
2016-17	247,627	95,956	343,583
2017-18	247,628	106,345	353,973
2018-21	742,884	584,467	1,327,351
Total	<u>\$ 1,981,022</u>	<u>\$ 1,015,315</u>	<u>\$ 2,996,337</u>

**D. Supplemental Early Retirement Programs**

**SERP – 2009**

In 2009, the District also agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2009. Ninety employees, who met the eligibility requirements, elected early retirement. Five payments of \$1,053,022 are being paid over a five year period starting July 2009. The accumulated future liability for the District at June 30, 2013 amounts to \$1,053,022.

**SERP – 2010(1)**

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. Seventy-one employees, who met the eligibility requirements, elected early retirement. Five payments of \$892,619 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2013 amounts to \$1,785,238.

**SERP – 2010(2)**

In 2010, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by June 30, 2010. One employee, who met the eligibility requirements, elected early retirement. Five payments of \$27,807 are being paid over a five year period starting August 2010. The accumulated future liability for the District at June 30, 2013 amounts to \$55,614.

A summary of future payments on outstanding early retirement incentives is presented below:

<u>Fiscal Year</u>	<u>Total</u>
2013-14	\$ 1,973,448
2014-15	920,426
Total	<u>\$ 2,893,874</u>

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2013

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#### NOTE 9 - JOINT VENTURES

The Fontana Unified School District participates in joint ventures under joint powers agreements with the Midwest Claims Employees Workers' Comp Excess, Southern California ReLiEF and Riverside Employee/Employer Partnership (REEP) for benefits. The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage as well as health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed audited financial information for the year ended June 30, 2012 for the JPAs are as follows:

	REEP	ReLiEF
Assets	\$ 30,971,338	\$ 49,517,919
Liabilities	11,498,338	21,283,297
Net Assets	<u>\$ 19,473,000</u>	<u>\$ 28,234,622</u>
Revenues	\$ 135,106,874	\$ 14,440,194
Expenses	129,725,662	8,376,201
Operating Income	5,381,212	6,063,993
Non-Operating Income	65,021	686,116
Change in Net Assets	<u>\$ 5,446,233</u>	<u>\$ 6,750,109</u>

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

##### A. State and Federal Allowances, Awards and Grants

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

##### B. Construction Commitments

As of June 30, 2013, the District had commitments with respect to unfinished capital projects of approximately \$152,000 to be paid from a combination of State and local funds.

##### C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2013.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 11 – 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. During fiscal year ending June 30, 2013, the District participated in the Southern California ReLiEF public entity risk pool for property and liability insurance coverage above the self-insured retention amounts of \$25,000 for liability claims and \$10,000 for property claims. 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.

#### Workers' Compensation

For fiscal year 2012-13, the District was self-funded for workers compensation for the first \$750,000 of a claim, with excess coverage provided by Mid-West Employers (a fully insured program).

#### Employee Medical Benefits

The District has contracted with Kaiser, Express Scripts, Blue Shield HMO, and Blue Shield POS to provide employee medical, prescription and surgical benefits, Delta Dental, MetLife Dental and Safe Guard for dental benefits, and MES Vision for vision benefits.

#### Claims Liability

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

#### Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District's workers' compensation from July 1, 2011 to June 30, 2013:

	Workers' Compensation
Liability Balance, July 1, 2011	\$ 2,986,943
Claims and changes in estimates	3,964,963
Claims payments	<u>(2,853,220)</u>
Liability Balance, June 30, 2012	4,098,686
Claims and changes in estimates	3,776,725
Claims payments	<u>(2,655,683)</u>
Liability Balance, June 30, 2013	<u>\$ 5,219,728</u>
Assets available to pay claims at June 30, 2013	<u>\$ 8,055,292</u>

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2013

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### NOTE 12 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and employees not covered by STRS or PERS are covered under the ING/Northern Annuity APPLE Plan.

#### Plan Description and Provisions

##### **Public Employees' Retirement System (PERS)**

###### **Plan Description**

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

###### **Funding Policy**

Active plan members are required to contribute 7.0% 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 for fiscal year 2012-13 was 11.417%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2012-13	\$ 5,889,243	100%
2011-12	\$ 5,459,375	100%
2010-11	\$ 5,422,073	100%

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

###### **Plan Description**

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

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2013*

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**NOTE 12 - EMPLOYEE RETIREMENT PLANS (continued)**

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

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2012-13	\$ 12,896,725	100%
2011-12	\$ 12,688,220	100%
2010-11	\$ 12,314,551	100%

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$6.7 million to STRS (4.267% of salaries subject to STRS in 2012-13).

**Alternative Retirement Program (APPLE)**

**Plan Description**

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers seasonal and temporary employees and employees not covered by another retirement system, pursuant to the requirements of Internal Revenue Code Section 3121(b)(7)(f). The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by the ARP Board of Education.

**Funding Policy**

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$249,440 during 2012-13. The total amount of covered compensation was \$3,325,875. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

Fontana Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefit Fund. The District implemented Governmental Accounting Standards Board Statement #45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.



**FONTANA UNIFIED SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2013***NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)****C. Funded Status and Funding Progress – OPEB Plans**

The funded status of the plan as of the three most recent actuarial valuation dates is as follows:

Annual required contribution (ARC)	\$ 11,271,478
Interest on net OPEB obligation	1,454,306
Adjustment to ARC	<u>(1,288,314)</u>
Annual OPEB cost	<u>11,437,470</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	(5,225,255)
Pay-as-you-go costs	<u>-</u>
Total contributions made	<u>(5,225,255)</u>
Increase in net OPEB liability	<u>6,212,215</u>
Net OPEB liability - July 1, 2012, as originally stated	26,574,264
Adjustment for restatement	<u>2,511,850</u>
Net OPEB liability - July 1, 2012, as restated	<u>29,086,114</u>
Net OPEB liability - June 30, 2013	<u>\$ 35,298,329</u>

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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Liability
2011	\$ 8,864,030	52%	\$ 22,537,538
2012	\$ 8,888,248	55%	\$ 29,086,114
2013	\$ 11,437,470	46%	\$ 35,298,329

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2013

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#### NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

##### D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated 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.

Valuation Date	April 1, 2012
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	25 years
Asset Valuation	Provided by District
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rate	4.0%
Inflation	3.0%

#### NOTE 14 – FUTURE GASB PRONOUNCEMENTS

The following statements issued by the Governmental Accounting Standards Board (GASB) will become effective in future years and are expected to have a significant impact on the District's financial reporting:

##### A. Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*

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.

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.

This Statement will become effective in 2013-14.

## FONTANA UNIFIED SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2013*

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#### **NOTE 14 – FUTURE GASB PRONOUNCEMENTS (continued)**

**B. Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)***

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 interperiod 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.

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.

#### **Cost-Sharing Employers**

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

This Statement will become effective in 2014-15.

#### **NOTE 15 - RESTATEMENT OF NET POSITION**

The beginning net position on the Statement of Activities has been restated by \$2,511,850. The restatement is necessary to increase the liability for other post employment benefits due to an incorrect annual required contribution used in the prior year calculation.

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***Required Supplementary Information***

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**FONTANA UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Revenue limit sources	\$ 189,838,338	\$ 251,232,460	\$ 206,283,007	\$ (44,949,453)
Federal	25,395,414	32,302,645	25,625,244	(6,677,401)
Other state	68,473,411	71,149,486	71,305,809	156,323
Other local	2,200,435	4,418,394	5,038,047	619,653
<b>Total Revenues</b>	<b>285,907,598</b>	<b>359,102,985</b>	<b>308,252,107</b>	<b>(50,850,878)</b>
<b>Expenditures</b>				
Current:				
Certificated salaries	153,882,443	191,108,124	156,581,146	34,526,978
Classified salaries	43,251,638	44,176,984	44,771,550	(594,566)
Employee benefits	75,600,421	85,656,474	74,625,798	11,030,676
Books and supplies	8,985,884	18,649,450	9,922,636	8,726,814
Services and other operating expenditures	29,468,420	40,413,225	28,451,626	11,961,599
Transfers of indirect costs	(1,048,574)	(1,128,968)	(1,008,211)	(120,757)
Capital outlay	666,643	2,030,174	330,802	1,699,372
Intergovernmental	-	-	43,066	(43,066)
Debt service	-	-	816,761	(816,761)
<b>Total Expenditures</b>	<b>310,806,875</b>	<b>380,905,463</b>	<b>314,535,174</b>	<b>66,370,289</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,899,277)	(21,802,478)	(6,283,067)	15,519,411
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	-	-	(1,397)	(1,397)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,899,277)	(21,802,478)	(6,284,464)	15,518,014
Fund Balances, July 1, 2012	59,162,504	59,162,504	59,162,504	-
Fund Balances, June 30, 2013	\$ 34,263,227	\$ 37,360,026	\$ 52,878,040	\$ 15,518,014

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – Cafeteria Fund*  
*For the Fiscal Year Ended June 30, 2013*

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Federal	\$ 16,365,873	\$ 17,496,863	\$ 18,700,368	\$ 1,203,505
Other State	1,400,778	1,438,876	1,438,874	(2)
Other Local	2,319,502	2,195,753	2,195,752	(1)
<b>Total Revenues</b>	<b>20,086,153</b>	<b>21,131,492</b>	<b>22,334,994</b>	<b>1,203,502</b>
<b>Expenditures</b>				
Current:				
Classified Salaries	6,082,071	6,180,490	5,905,499	274,991
Employee Benefits	4,021,914	3,318,233	3,102,260	215,973
Books and Supplies	8,879,710	9,443,836	9,540,023	(96,187)
Services and Other Operating Expenditures	248,550	13,604,825	160,144	13,444,681
Transfers of indirect costs	803,908	803,908	731,685	72,223
Capital Outlay	50,000	352,264	209,094	143,170
<b>Total Expenditures</b>	<b>20,086,153</b>	<b>33,703,556</b>	<b>19,648,705</b>	<b>14,054,851</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(12,572,064)	2,686,289	15,258,353
Fund Balances, July 1, 2012	12,675,737	12,675,737	12,675,737	-
Fund Balances, June 30, 2013	\$ 12,675,737	\$ 103,673	\$ 15,362,026	\$ 15,258,353

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2013*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 17, 2006	\$ 1	\$ 82,646,793	\$ 82,646,792	0.0%	\$ 189,979,974	44%
November 20, 2008	\$ 71,677	\$ 74,858,593	\$ 74,786,916	0.1%	\$ 206,680,579	36%
April 1, 2010	\$ 1,262,983	\$ 95,413,658	\$ 94,150,675	1.3%	\$ 195,421,055	48%
April 1, 2012	\$ 11,273,568	\$ 116,435,068	\$ 76,176,306	14.8%	\$ 187,339,962	41%

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2013*

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedules**

These schedules are required by GASB Statement No.34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

**Schedule of Funding Progress**

This schedule is required by GASB Statement No.45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2013, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code:

Appropriations Category	General Fund	Cafeteria Fund
Classified salaries	\$ 594,566	\$ -
Books and supplies	-	96,187
Transfers of indirect costs	120,757	-
Intergovernmental	43,066	-
Debt service	816,761	-
Interfund transfers out	1,397	-

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***Supplementary Information***

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**FONTANA UNIFIED SCHOOL DISTRICT**  
*Local Educational Agency Organization Structure*  
*June 30, 2013*

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The Fontana Unified School District was established in 1956. The District boundaries encompass an area of approximately 55 square miles. The District boundaries include the city of Fontana and portions of the cities of Rialto and Rancho Cucamonga, as well as unincorporated areas of the County of San Bernardino. There were no changes to the District's boundaries during the year. The District currently operates 29 elementary schools, seven intermediate schools, five high schools, two continuation high schools, and an adult education and child development program.

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Gus Hawthorn	President	2014
BarBara L. Chavez	Vice-President	2016
Lorena Corona	Member	2016
Leticia Garcia <sup>1</sup>	Member	2014
Sophia Green <sup>1</sup>	Member	2014

**DISTRICT ADMINISTRATORS**

Cali L. Olsen-Binks, <sup>2</sup>  
*Superintendent*

Ron Murrey, <sup>3</sup>  
*Interim Associate Superintendent, Business Services*

Oscar Dueñas,  
*Associate Superintendent, Instructional Services*

David E. Hatton, Ph.D.,  
*Interim Associate Superintendent, Human Resources*

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<sup>1</sup> Recalled during a special election on July 16, 2013. The voters elected Dr. Ayanna Blackman-Balogun and Shannon O'Brien to fill the open seats.

<sup>2</sup> Resigned effective June 30, 2013. On November 1, 2013 Leslie Boozer, Ed.D., J.D., was appointed as Superintendent.

<sup>3</sup> On August 10, 2013 Randal Bassett was appointed as the Associate Superintendent, Business Services.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2013*

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	Second Period Report (Certificate No. 280250A6)	Annual Report (Certificate No. 40345A7D)
<b>Elementary:</b>		
Kindergarten	2,978	2,986
Grades 1 through 3	8,936	8,927
Grades 4 through 6	8,129	8,123
Grades 7 and 8	5,455	5,452
Home and hospital	8	10
Special education	1,035	1,038
Extended year program	14	29
	<hr/>	<hr/>
Total Elementary	26,555	26,565
	<hr/>	<hr/>
<b>Secondary:</b>		
Grades 9 through 12, regular classes	11,014	10,962
Continuation education	818	783
Home and hospital	15	17
Special education	563	556
Extended year program	10	20
	<hr/>	<hr/>
Total Secondary	12,420	12,338
	<hr/>	<hr/>
Total Average Daily Attendance	<u>38,975</u>	<u>38,903</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2013*

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Grade Level	1982-83 Minutes		1986-87 Minutes		2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	36,000	35,000	36,000	35,000	35,000	180	Complied
Grade 1	46,130	44,849	50,400	49,000	53,184	180	Complied
Grade 2	46,130	44,849	50,400	49,000	53,184	180	Complied
Grade 3	46,130	44,849	50,400	49,000	53,184	180	Complied
Grade 4	47,800	46,472	54,000	52,500	54,564	180	Complied
Grade 5	47,800	46,472	54,000	52,500	54,564	180	Complied
Grade 6	47,800	46,472	54,000	52,500	54,564	180	Complied
Grade 7	57,390	55,796	54,000	52,500	58,410	180	Complied
Grade 8	57,390	55,796	54,000	52,500	58,410	180	Complied
Grade 9	57,390	55,796	64,800	63,000	65,558	180	Complied
Grade 10	57,390	55,796	64,800	63,000	65,558	180	Complied
Grade 11	57,390	55,796	64,800	63,000	65,558	180	Complied
Grade 12	57,390	55,796	64,800	63,000	65,558	180	Complied

\* Amounts reduced as permitted by Education Code Section 46201.2(a).

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2013*

General Fund	(Budget) 2014 <sup>2</sup>	2013	2012	2011
Revenues and other financing sources	\$ 301,931,381	\$ 308,252,107	\$ 314,762,161	\$ 317,960,437
Expenditures	322,393,375	314,535,174	309,931,646	298,434,724
Other uses and transfers out	-	1,397	-	2,102,407
Total outgo	322,393,375	314,536,571	309,931,646	300,537,131
Change in fund balance (deficit)	(20,461,994)	(6,284,464)	4,830,515	17,423,306
Ending fund balance	\$ 32,416,046	\$ 52,878,040	\$ 59,162,504	\$ 54,331,989
Available reserves <sup>1</sup>	\$ 19,282,355	\$ 35,840,426	\$ 12,397,266	\$ 9,007,559.00
Available reserves as a percentage of total outgo	6.0%	11.4%	4.0%	3.0%
Total long-term debt	\$ 337,195,535	\$ 346,862,677	\$ 402,724,861	\$ 405,384,547
Average daily attendance at P-2	38,533	38,975	39,107	39,268

The General Fund balance has decreased by \$1,453,949 over the past two years. The fiscal year 2013-14 adopted budget projects a decrease of \$20,461,994. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit during the 2013-14 fiscal year. Long-term debt has decreased by \$58,521,870 over the past two years.

Average daily attendance has decreased by 293 over the past two years. A decrease of 442 ADA is anticipated during fiscal year 2013-14.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Revised Final Budget September, 2013.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2013*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
<b>Federal Programs:</b>				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Program - Basic	10.553	13525	\$ 811	
School Breakfast Program - Especially Needy	10.553	13526	3,144,185	
National School Lunch Program	10.555	13523	14,351,867	
USDA Donated Foods	10.555	N/A	1,203,505	
Total Child Nutrition Cluster				\$ 18,700,368
Total U.S. Department of Agriculture				<u>18,700,368</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Adult Basic Education (ABE):				
Adult Education Cluster				
Adult Secondary Education	84.002	13978	176,963	
Adult Basic Education & ESL	84.002A	14508	131,436	
Total Adult Education Cluster				308,399
No Child Left Behind (NCLB):				
Title I, Part A Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	11,238,001	
Title I, Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems	84.010	14955	957,516	
Title I, Part D, Local Delinquent Programs	84.010	14357	35,695	
Total Title I, Part A Cluster				12,231,212
School Improvement Grant Cluster				
Title I, School Improvement Grant (SIG)	84.377	15127	229,607	
ARRA Title I, School Improvement Grant (SIG)	84.388	15004	2,041,065	
Total School Improvement Grant Cluster				2,270,672
Title I, Part B, Reading First Program				
Title II, Part A Cluster	84.357	14787		509,098
Title II, Part A, Administrator Training	84.367	14344	10,158	
Title II, Part A, Improving Teacher Quality Local Grants	84.386	14341	1,586,592	
Total Title II, Part A Cluster				1,596,750
Title III, Limited English Proficiency	84.365	14346		801,230
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349		173,414
Carl Perkins Act - Secondary	84.048	14894		327,899
Advanced Placement Test Fee	84.330	14504		26,165
Safe & Supportive Schools, Programmatic Intervention	84.184	N/A		280,463
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
Local Assistance Entitlement	84.027	13379	6,687,003	
Preschool Local Entitlement, Part B	84.173	13682	249,585	
Preschool Staff Development	84.173A	13431	1,000	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	14,524	
Sp Ed Preschool	84.173	13430	166,570	
Sp Ed Mental Health Allocation	84.027	14468	199,570	
Total Special Education Cluster				7,318,252
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		218,778
Total U.S. Department of Education				<u>26,192,217</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care Development Fund Cluster				
Quality Improvement Activities	93.575	13979		608,410
Head Start Cluster				
Head Start	93.600	10016	162,664	
Head Start ARRA	93.600	10016	266,603	
Total Head Start Cluster				429,267
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	379,999	
Medi-Cal Administrative Activities (MAA)	N/A	10060	373,150	
Total Medicaid Cluster				753,149
Total U.S. Department of Health & Human Services				<u>1,790,826</u>
Total Expenditures of Federal Awards				<u>\$ 46,683,411</u>

**FONTANA UNIFIED SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2013*

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*There were no differences between the Annual Financial and Budget Report and the  
Audited Financial Statements in any funds.*

## **FONTANA UNIFIED SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2013*

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### **NOTE 1 – PURPOSE OF SCHEDULES**

#### **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 requirement, whichever is greater, as reduced by Education Code section 46201.2(a).

#### **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.

#### **Schedule of Expenditures of Federal Awards**

The 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.

#### **Subrecipients**

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

#### **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.

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***Other Independent Auditors' Reports***

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

Board of Education  
Fontana Unified School District  
Fontana, 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 Fontana Unified School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Fontana Unified School District's basic financial statements, and have issued our report thereon dated November 26, 2013.

**Internal Control Over Financial Reporting**

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

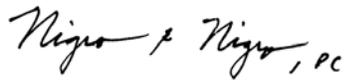
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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.



November 26, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE**

Board of Education  
Fontana Unified School District  
Fontana, California

**Report on Compliance for Each Major Federal Program**

We have audited Fontana 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 Fontana Unified School District's major federal programs for the year ended June 30, 2013. Fontana 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 Fontana 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 Fontana 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 Fontana Unified School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Fontana 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.

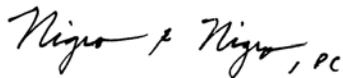
### **Report on Internal Control Over Compliance**

Management of Fontana 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 Fontana 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 the 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 a 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, as defined above. 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.



November 26, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Fontana Unified School District
Fontana, California

We have audited Fontana Unified School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Fontana Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Fontana Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

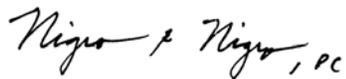
Table with 3 columns: Description, Procedures in Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, Early Retirement Incentive, Gann Limit Calculation, School Accountability Report Card, Juvenile Court Schools, Class Size Reduction (General Requirements, Option One, Option Two, Districts with Only One School Serving K-3).

Description	Procedures in Audit Guide	Procedures Performed
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

In our opinion, Fontana Unified School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2013.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.



November 26, 2013

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***Findings and Questioned Costs***

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**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2013*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</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(s) identified not considered to be material weaknesses?	<u>No</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 Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.010</u> <u>Title I, Cluster</u>	
<u>84.377, 84.388</u> <u>School Improvement Grant Cluster</u>	
<u>84.365</u> <u>Title III, English Language Acquisition Grants</u>	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,400,502</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2013*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

***There were no financial statement findings in 2012-13.***

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2013*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2012-13.*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2013*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

*There were no state award findings or questioned costs in 2012-13.*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2013*

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2012-1:  Special Education  IDEA Cluster</i>	<p>OMB Circular A-87 requires that employees funded solely from a single federal program must sign a semi-annual certification stating that he or she worked exclusively in that program during the certification period. Whenever an employee works in more than one categorical program or cost objective, the distribution of the employee's salary must be supported by a Personnel Activity Report (PAR).</p> <p>The District is using semi-annual certifications and PARs for employees working in IDEA in 2011-12; however, the form for one employee did not match the distribution of the employee's payroll. The semi-annual certification provided by the employee indicated that she worked 100% in Special Education. In fact, the employee only worked 20% of the time in Special Education, while 80% of the time was worked in the Medi-Cal Program.</p>	50000	<p>The District must continue to implement semi-annual certifications and PARs for all employees working in <i>all</i> federal programs in the 2011-12 fiscal year. The District must also implement a process to ensure that employee's activities match the distribution of his or her payroll.</p>	Implemented.

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To the Board of Education  
Fontana Unified School District  
Fontana, California

In planning and performing our audit of the basic financial statements of Fontana Unified School District for the fiscal year ending June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 26, 2013, on the financial statements of Fontana Unified School District.

### COMPENSATED ABSENCES

**Observation:** During our audit of the compensated absences liability, we reviewed the collective bargaining unit agreement for classified staff and identified that the maximum carryover of vacation for these employees is 96 hours. After reviewing the schedule of compensated absences, we noted 245 employees that have accrued vacation exceeding this carryover limit. The cost of this excess carryover is estimated to be \$333,434 as of June 30, 2013.

**Recommendation:** The District should begin monitoring the balances and enforcing the carryover limitations in accordance with the collective bargaining agreement.

### ASSOCIATED STUDENT BODY (ASB) FUNDS

**Observation:** During our review of the meeting minutes at several schools we found that the minutes were lacking certain recommended elements at several sites. Meeting minutes are an imperative record of operations and provide vital evidence in the event of fraud, improper spending, and accusations of improper club administration.

**Recommendation:** We recommend that the sites emphasize the importance of complete minutes and perhaps utilize the sample templates which are available in the FCMAT ASB Accounting Manual.

**Observation:** During our testing of cash disbursements, we noted that several disbursements tested lacked evidence of receipt of goods or services.

**Recommendation:** We recommend that the sites document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing "ok to pay" or "received" and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.

To the Board of Education  
Fontana Unified School District

### **ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)**

**Observation:** During our review of student council accounts at certain school sites, we noted miscellaneous income and expense accounts that were carrying unusually high balances.

**Recommendation:** We recommend that the District implement a procedure to better document the origination of the student council's expenses to ensure that all ASB purchases and receipts are allowable and in accordance with district policy.

**Observation:** During our testing at several school sites, we identified that bank reconciliations were not prepared timely. Additionally, we noted that the bank reconciliations are not reviewed after they are completed. Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit.

**Recommendation:** We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, another individual should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

**Observation:** During our documentation of internal controls at Fontana High, we noted that the ASB bookkeeper is currently a signer on the bank account. This creates a lack of segregation of duties. Good internal controls include segregating duties so that one person is not handling a transaction from beginning to end. This is a critical part of a system of checks and balances. Those who record the transaction should be separate from those who authorize and execute the transaction.

**Recommendation:** We recommend that the bookkeeper be removed as an authorized signer on the ASB bank account.

**Observation:** In our testing of cash receipts at school sites, we found that some deposits tested lacked sufficient supporting documentation. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

**Recommendation:** Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.

**Observation:** In our test of cash disbursements at A.B. Miller High, we noted that five of the twenty-five disbursements selected in our sample were not approved by a District representative. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

**Recommendation:** We recommend that the site adopt a procedure for compliance with the Education Code in obtaining all of the required approvals.

To the Board of Education  
Fontana Unified School District

**ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)**

**Observation:** During our review of disbursements at Kaiser High, we noted that there were three accounts named “District Fees”, “AP Test”, and “Testing Income”, which serve as clearing funds for the District and are not clubs which are operated by students. ASB accounts are not and should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds.

**Recommendation:** We recommend that the site forward all District funds to the District for receipt or open a separate clearing account for funds to be transferred to the District on a monthly basis.

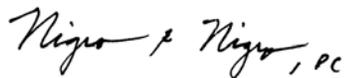
**Observation:** During our review of disbursements at the high schools, we noted that some of the disbursements selected in our sample were not approved by a District representative, the ASB advisor, and a student representative prior to incurring the expense. Education Code Section 48933(b) requires all disbursements from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

**Recommendation:** We recommend that the site adopt a procedure for compliance with the Education Code in obtaining the required approvals.

**Observation:** During our cash receipts testing at Southridge Middle, one of the five cash receipts that we sampled was not deposited until six months after it had been collected. Collected monies were from a Knott’s Berry Farm trip during the 2011-12 year that were found in the prior advisor’s desk drawer.

**Recommendation:** We recommend that the site emphasize to the advisors and teachers that deposits should be made to the bookkeeper on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts often occur during these times.

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



November 26, 2013