

**FONTANA UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2014**



FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2014
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For the Fiscal Year Ended June 30, 2014

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Fontana Unified School District
Fontana, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 2013-14*. 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, 2014, 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.

Emphasis of Matter

As discussed in Note 1.G. to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities". The adoption of this standard required retrospective application resulting in a \$4,450,028 reduction of previously reported net position at July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, budgetary comparison information on pages 49 and 50, and schedule of funding progress on page 51 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.

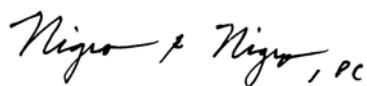
Other Information

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 December 3, 2014 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.



Murrieta, California
December 3, 2014

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2014

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$6.4 million, or 1.6%.
- Governmental expenses were about \$389.4 million. Revenues were about \$395.8 million.
- The District acquired over \$4.8 million in new capital assets during the year. These expenditures were incurred primarily from purchased equipment through E-Rate program and improvements to sites.
- The District decreased its outstanding long-term debt by \$1.6 million. This was primarily due to a reduction of general obligation bonds and COPS in accordance with re-payment schedule and refunding of bonds.
- Grades K-12 average daily attendance (ADA) decreased by 333, or 0.85%.

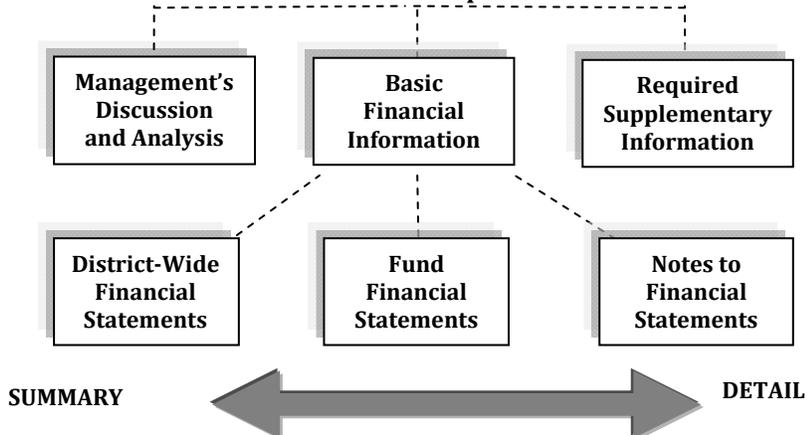
OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2014

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

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<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"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
<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, 2014

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 deferred outflows of resources and liabilities and deferred inflows of resources – 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, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics 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 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, 2014

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 higher on June 30, 2014, than it was the year before – increasing 1.6% to \$413.5 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2014	2013 *	
Current assets	\$ 224.5	\$ 234.9	\$ (10.4)
Capital assets	564.7	583.5	(18.8)
Total assets	789.2	818.4	(29.2)
Deferred outflow of resources	4.5	4.8	(0.3)
Current liabilities	35.0	69.2	(34.2)
Long-term liabilities	345.2	346.9	(1.7)
Total liabilities	380.2	416.1	(35.9)
Net position			
Net investment in capital assets	320.4	326.4	(6.0)
Restricted	97.6	86.0	11.6
Unrestricted	(4.5)	(5.3)	0.8
Total net position	\$ 413.5	\$ 407.1	\$ 6.4

* As restated

Changes in net position, governmental activities. The District's total revenues increased 6.7% to \$395.8 million (See Table A-2). The increase is due primarily to increase in state revenue as a result of the LCFF funding model.

The total cost of all programs and services increased 1.4% to \$389.4 million. The District's expenses are predominantly related to educating and caring for students, 77.0%. 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 instruction materials, supplies, and services purchased.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Total Revenues	\$ 395.8	\$ 370.8	\$ 25.0
Total Expenses	389.4	383.9	5.5
Increase (decrease) in net position	\$ 6.4	\$ (13.1)	\$ 19.5

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 \$190.5 million, which is above last year's ending fund balance of \$166.5 million. The primary cause of the increased fund balance is an increase in state revenue due to implementation of LCFF.

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 \$37.7 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$7.7 million due to anticipated labor negotiation settlements
- Other non-personnel expenses – increased \$29.2 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 \$19.6 million, the actual results for the year show that revenues exceeded expenditures by roughly \$16.9 million. Actual revenues were \$5.9 million less than anticipated, but expenditures were \$42.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013-14 the District had invested \$4.8 million in new capital assets, related to the District's purchase of equipment through the E-Rate program and site improvements. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$23.5 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Land	\$ 58.9	\$ 58.9	\$ -
Improvement of sites	35.7	37.9	(2.2)
Buildings	445.3	460.5	(15.2)
Equipment	12.3	13.7	(1.4)
Construction in progress	12.5	12.5	-
Total	\$ 564.7	\$ 583.5	\$ (18.8)

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$345.3 million in general obligation bonds, certificates of participation, QZABs, and employment benefits – a decrease of 0.5% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2014	2013	
General obligation bonds	\$ 253.6	\$ 259.6	\$ (6.0)
Certificates of participation	42.9	44.2	(1.3)
QZABs	2.5	3.0	(0.5)
Compensated absences	2.0	1.9	0.1
Supplemental retirement	0.9	2.9	(2.0)
Other postemployment benefits	43.4	35.3	8.1
Total	\$ 345.3	\$ 346.9	\$ (1.6)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of \$152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of \$108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and \$44.3 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

Major Features of the 2014-15 Spending Plan

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

Fully Funds CalSTRS Pension Program

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

Proposition 98

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Spending Changes

Funding for K-14 education increases significantly under the new budget package. In the sections that follow, we describe how the State is spending these funds.

Deferral Payments

Pays Down \$5.2 Billion in Outstanding Deferrals

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, and \$662 million is designated as 2014-15 spending. Under the budget plan, \$992 million in deferrals (\$897 million for schools and \$94 million for community colleges) would remain outstanding at the end of 2014-15.

Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates

The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first \$992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

Mandates

Pays Down \$450 Million in Outstanding Education Mandate Claims

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. The budget includes \$400 million to reduce the mandate backlog for schools. (Of this amount, \$287 million is 2014-15 Proposition 98 funding and \$113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

Adds Several Mandates to School and Community College Block Grants

The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

Energy Grants

State Provides Second-Year Funding for Energy Projects

Passed by 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. The 2014-15 budget provides \$345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides \$279 million for school grants, \$38 million for community colleges grants, and \$28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides \$8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps (\$5 million) and the California Workforce Investment Board (\$3 million).

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Chapter 751 Obligation

Makes Final \$410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06

The 2014-15 budget makes a final \$410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of \$2.8 billion had been provided. Of the amount provided in the budget package, \$316 million is for continued funding of the QEIA program (\$268 million for schools and \$48 million for community colleges) and \$94 million is to pay down a separate state obligation related to school facility repairs.

K-12 Education

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

Operational Funding

Provides \$4.7 Billion for LCFF Implementation

The budget plan includes \$4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes \$26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

Other Notable K-12 Actions

The budget provides \$54 million to continue implementation of new student assessments and \$33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

Infrastructure

Allocates \$189 Million for Emergency Repair Program (ERP)

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of \$800 million for the program. The state has provided \$338 million to date. The budget provides \$189 million for the ERP in 2014-15.

Allocates \$27 Million in One-Time Funds for School Internet Infrastructure

The budget includes \$27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

FONTANA UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Shifts Remaining Bond Authority Among Certain School Facility Programs

The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

Local Reserves

Requires School Districts to Disclose and Justify Reserves

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the amount of reserves that exceed the minimum and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

Caps Local Reserves Some Years Under Proposition 2

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 3 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2014-15 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, 2014*

	Total Governmental Activities
ASSETS	
Current assets:	
Cash	\$ 151,041,494
Investments	22,597,828
Accounts receivable	50,306,333
Inventories	305,631
Prepaid expenses	264,490
Total current assets	<u>224,515,776</u>
Capital assets:	
Non-depreciable assets	71,435,979
Depreciable assets	737,877,508
Less accumulated depreciation	<u>(244,570,481)</u>
Total capital assets, net of depreciation	<u>564,743,006</u>
Total assets	<u>789,258,782</u>
 DEFERRED OUTFLOW OF RESOURCES	
Deferred charges on refunding	<u>4,450,468</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	34,361,898
Unearned revenue	589,029
Total current liabilities	<u>34,950,927</u>
Long-term liabilities:	
Portion due or payable within one year	11,903,745
Portion due or payable after one year	333,378,791
Total long-term liabilities	<u>345,282,536</u>
Total liabilities	<u>380,233,463</u>
 NET POSITION	
Net investment in capital assets	320,381,645
Restricted for:	
Capital projects	43,745,127
Debt service	18,753,089
Educational programs	35,113,762
Unrestricted	<u>(4,517,836)</u>
Total net position	<u>\$ 413,475,787</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities					
Instructional Services:					
Instruction	\$ 211,929,769	\$ 666,797	\$ 48,600,468	\$ 2,129,128	\$ (160,533,376)
Instruction-Related Services:					
Supervision of instruction	17,242,687	185,493	8,861,114	-	(8,196,080)
Instructional library, media and technology	3,470,232	-	2,569	-	(3,467,663)
School site administration	21,387,960	1,495	120,371	-	(21,266,094)
Pupil Support Services:					
Home-to-school transportation	3,913,103	-	-	-	(3,913,103)
Food services	20,467,611	2,040,184	18,793,771	-	366,344
All other pupil services	21,270,194	31,784	8,163,320	-	(13,075,090)
General Administration Services:					
Data processing services	5,903,452	-	-	-	(5,903,452)
Other general administration	6,897,806	42,961	2,691,080	-	(4,163,765)
Plant services	38,810,743	311,758	847,092	-	(37,651,893)
Ancillary services	32,552	-	-	-	(32,552)
Community services	976,597	173,457	6,154	-	(796,986)
Interest on long-term debt	13,282,493	-	-	-	(13,282,493)
Other outgo	244,426	3,232,258	114,674	-	3,102,506
Depreciation (unallocated)	23,560,821	-	-	-	(23,560,821)
Total Governmental Activities	\$ 389,390,446	\$ 6,686,187	\$ 88,200,613	\$ 2,129,128	(292,374,518)
General Revenues:					
Property taxes					56,169,078
Federal and state aid not restricted to specific purpose					237,901,176
Interest and investment earnings					276,528
Donated equipment					1,750,609
Miscellaneous					2,653,587
Total general revenues					298,750,978
Change in net position					6,376,460
Net position - July 1, 2013, as originally stated					411,549,355
Adjustment for restatement					(4,450,028)
Net position - July 1, 2013, as restated					407,099,327
Net position - June 30, 2014					\$ 413,475,787

FONTANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 51,932,301	\$ 15,890,414	\$ 16,420,570	\$ 60,082,544	\$ 144,325,829
Investments	-	-	22,597,828	-	22,597,828
Accounts receivable	47,539,124	2,227,570	102,899	430,762	50,300,355
Due from other funds	3,224,392	4,079	-	7,915,933	11,144,404
Inventories	440	305,191	-	-	305,631
Prepaid expenditures	264,490	-	-	-	264,490
Total Assets	\$ 102,960,747	\$ 18,427,254	\$ 39,121,297	\$ 68,429,239	\$ 228,938,537
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 24,382,863	\$ 244,799	\$ 546,288	\$ 675,819	\$ 25,849,769
Due to other funds	8,737,615	2,248,290	-	967,391	11,953,296
Unearned revenue	47,665	-	-	541,364	589,029
Total Liabilities	33,168,143	2,493,089	546,288	2,184,574	38,392,094
Fund Balances					
Nonspendable	339,930	315,161	-	-	655,091
Restricted	19,197,214	15,619,004	38,575,009	62,795,760	136,186,987
Committed	-	-	-	3,390,415	3,390,415
Assigned	16,489,752	-	-	58,490	16,548,242
Unassigned	33,765,708	-	-	-	33,765,708
Total Fund Balances	69,792,604	15,934,165	38,575,009	66,244,665	190,546,443
Total Liabilities and Fund Balances	\$ 102,960,747	\$ 18,427,254	\$ 39,121,297	\$ 68,429,239	\$ 228,938,537

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2014

Total fund balances - governmental funds \$ 190,546,443

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:	809,313,487	
Accumulated depreciation:	<u>(244,570,481)</u>	
Net:		564,743,006

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 a deferred outflow of resources. The remaining deferred charges on refunding at the end of the period were:

4,450,468

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:

(3,395,279)

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	253,588,467	
Certificates of participation payable	42,906,366	
QZAB bonds payable	2,482,153	
Compensated absences	1,949,739	
Supplemental early retirement	920,426	
Other postemployment benefits payable	<u>43,435,385</u>	
Total		(345,282,536)

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 the internal service fund is:

2,413,685

Total net position - governmental activities

\$ 413,475,787

FONTANA UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2014

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 259,797,006	\$ -	\$ -	\$ 1,838,350	\$ 261,635,356
Federal sources	22,827,026	18,625,473	-	1,153,924	42,606,423
Other state sources	46,233,761	1,368,665	-	7,111,097	54,713,523
Other local sources	4,947,485	2,094,866	5,744,829	22,290,689	35,077,869
Total Revenues	333,805,278	22,089,004	5,744,829	32,394,060	394,033,171
EXPENDITURES					
Current:					
Instruction	201,698,828	-	-	5,065,408	206,764,236
Instruction-related services:					
Supervision of instruction	15,411,186	-	-	1,505,840	16,917,026
Instructional library, media and technology	3,291,792	-	-	-	3,291,792
School site administration	20,438,441	-	-	202,398	20,640,839
Pupil support services:					
Home-to-school transportation	3,800,077	-	-	-	3,800,077
Food services	42,279	20,142,167	-	15,852	20,200,298
All other pupil services	20,641,838	-	-	250,325	20,892,163
Ancillary services	32,552	-	-	-	32,552
Community services	976,597	-	-	-	976,597
General administration services:					
Data processing services	5,849,732	-	-	-	5,849,732
Other general administration	8,058,652	-	-	50,893	8,109,545
Plant services	36,327,256	223,416	164,825	1,460,794	38,176,291
Transfers of indirect costs	(823,535)	615,105	-	208,430	-
Intergovernmental	244,191	-	-	-	244,191
Capital outlay	900,828	536,177	591,193	1,042,592	3,070,790
Debt service:					
Issuance costs	-	-	17,111	168,567	185,678
Principal	-	-	1,295,000	7,258,064	8,553,064
Interest	-	-	1,970,678	10,505,607	12,476,285
Total Expenditures	316,890,714	21,516,865	4,038,807	27,734,770	370,181,156
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,914,564	572,139	1,706,022	4,659,290	23,852,015
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	1,519,927	-	1,519,927
Interfund transfers out	-	-	-	(1,519,927)	(1,519,927)
Premium on bond issuance	-	-	-	1,245,978	1,245,978
Proceeds from bond issuance	-	-	-	12,975,000	12,975,000
Payment to escrow agent for defeased debt	-	-	-	(14,052,411)	(14,052,411)
Total Other Financing Sources and Uses	-	-	1,519,927	(1,351,360)	168,567
Net Change in Fund Balances	16,914,564	572,139	3,225,949	3,307,930	24,020,582
Fund Balances, July 1, 2013	52,878,040	15,362,026	35,349,060	62,936,735	166,525,861
Fund Balances, June 30, 2014	\$ 69,792,604	\$ 15,934,165	\$ 38,575,009	\$ 66,244,665	\$ 190,546,443

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, 2014

Total net change in fund balances - governmental funds

Amounts reported for governmental *activities* in the statement of activities are different because: \$ 24,020,582

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	3,070,793	
Depreciation expense	<u>(23,560,821)</u>	
Net:		(20,490,028)

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: 1,750,609

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: (49,051)

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: 22,432,194

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: (14,220,978)

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: (251,869)

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: 1,100,848

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: (1,449,861)

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: 136,523

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: (118,454)

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: 1,973,448

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: (8,137,056)

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: (320,447)

Change in net position of governmental activities **\$ 6,376,460**

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2014

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 6,715,665
Accounts receivable	5,978
Due from other funds	<u>864,028</u>
Total assets	<u>7,585,671</u>
LIABILITIES	
Estimated liability for open claims and IBNRs	4,988,277
Accounts payable	128,573
Due to other funds	<u>55,136</u>
Total liabilities	<u>5,171,986</u>
NET POSITION	
Restricted	<u><u>\$ 2,413,685</u></u>

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2014*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 1,068,847
Other local revenues	<u>28,764</u>
Total operating revenues	<u>1,097,611</u>
OPERATING EXPENSES	
Payments for personnel costs	268,743
Payments for materials and supplies	10,774
Payments for claims and other operating expenses	<u>1,162,227</u>
Total operating expenses	<u>1,441,744</u>
OPERATING INCOME (LOSS)	(344,133)
NON-OPERATING REVENUES	
Interest income	<u>23,686</u>
Change in net position	(320,447)
Net position, July 1, 2013	<u>2,734,132</u>
Net position, June 30, 2014	<u><u>\$ 2,413,685</u></u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	Governmental Activities
	Internal Service Fund
	Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Self-insurance premiums	\$ 1,068,847
Cash received from other local sources	28,764
Other operating transfers	(762,537)
Cash paid for operating expenses	<u>(1,637,599)</u>
Net cash used by operating activities	(1,302,525)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>23,679</u>
Net decrease in cash	(1,278,846)
Cash, July 1, 2013	<u>7,994,511</u>
Cash, June 30, 2014	<u>\$ 6,715,665</u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (344,133)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Changes in operating assets and liabilities:	
Increase in amounts due from other funds	(809,218)
Decrease in accounts payable and estimated claims liability	(195,855)
Increase in amounts due to other funds	<u>46,681</u>
Net cash used by operating activities	<u>\$ (1,302,525)</u>

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Fiduciary Net Position**June 30, 2014*

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,575,132	\$ 1	\$ 1,575,133
Investments	-	8,895,983	8,895,983
Accounts receivable	1,607	-	1,607
Inventories - supplies and materials	139,100	-	139,100
Prepaid expenses	10,486	-	10,486
Total assets	<u>\$ 1,726,325</u>	<u>8,895,984</u>	<u>10,622,309</u>
LIABILITIES			
Accounts payable	\$ 117,141	4,986,657	5,103,798
Due to student groups	1,609,184	-	1,609,184
Total liabilities	<u>\$ 1,726,325</u>	<u>4,986,657</u>	<u>6,712,982</u>
NET POSITION			
Restricted		<u>\$ 3,909,327</u>	<u>\$ 3,909,327</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2014

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 263,093
Increase in fair value of investments	969,510
In-district contributions	<u>5,200,000</u>
Total Additions	6,432,603
DEDUCTIONS	
Operating expenses	<u>5,087,782</u>
Change in net position	1,344,821
Net position - July 1, 2013	<u>2,564,506</u>
Net position - June 30, 2014	<u><u>\$ 3,909,327</u></u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District's 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>
Fontana USD Public Financing Authority 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.
Community Facilities Districts (CFD): 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, 2014

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 the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Special Reserve Fund for Other Than Capital Outlay Projects which does not currently meet the definition of a special revenue fund as it is not primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in the fund is being reported within the General Fund.

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

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, 2014

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:

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 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, 2014

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. Budgetary Data

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data (continued)

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

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, Deferred Outflows of Resources, Liabilities, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents 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.

2. 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.

3. 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:

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

4. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

5. 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.

6. 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.

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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. This item is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

7. Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

8. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

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 Pronouncement

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncement (continued)

Statement No. 65 (continued)

Due to the implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 by \$4,450,028, which is the amount of unamortized debt issuance costs at July 1, 2013.

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.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2014 are reported at fair value and consisted of the following:

	Rating	Governmental Activities			Fiduciary Funds
		Governmental Funds	Proprietary Fund	Total	
Pooled Funds:					
Cash in County Treasury		\$ 141,988,773	\$ 6,565,665	\$ 148,554,438	\$ 1
Deposits:					
Cash on hand and in banks		2,252,086	-	2,252,086	1,575,132
Cash in revolving fund		84,970	150,000	234,970	-
Total Deposits		2,337,056	150,000	2,487,056	1,575,132
Total Cash		\$ 144,325,829	\$ 6,715,665	\$ 151,041,494	\$ 1,575,133
Investments:					
US Bank Money Market	A-1+	\$ 22,597,828	\$ -	\$ 22,597,828	\$ -
Benefit-Trust:					
Fixed Income:					
Delaware Diversified Income Institutional					734,924
Hartford World Bond					702,390
Legg Mason BW Global Opportunities BD IS					389,824
Metropolitan West Total Return Bond I					716,212
Prudential Total Return Bond Z					816,450
Templeton Global Bond Adv Fund					810,329
Western Asset Core Plus Bond I					810,986
Equities:					
Black Rock Equity Dividend Institutional					348,411
Brandes Institutional International Equity I					340,745
Brandes Emerging Markets					132,516
Cohen & Steers Institutional Realty Shares					273,485
JHancock Classic Value I					353,512
Hartford Capital Appreciation Y					425,550
Hartford Midcap Y					181,422
American Funds New Perspective					177,273
American Funds New World F-2					128,497
Nuveen Tradewinds Value Opportunities I					254,325
Prudential Global Real Estate Z					265,099
Royce Global Value Invmt					372,128
Royce Special Equity Institutional					161,230
Thornburg Investment Income Builder					255,515
Thornburg International Value I					234,338
Various					10,822
Total Investments					\$ 8,895,983

Investment security ratings reported as of June 30, 2014 are defined by Standard and Poors.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014, 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, 2014, \$1,100,001 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, 2014***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2014 consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 22,597,828	\$ 22,597,828	\$ -
Benefit-Trust:			
Fixed Income:			
Delaware Diversified Income Institutional	734,924	734,924	-
Hartford World Bond	702,390	702,390	-
Legg Mason BW Global Opportunities BD IS	389,824	389,824	-
Metropolitan West Total Return Bond I	716,212	716,212	-
Prudential Total Return Bond Z	816,450	816,450	-
Templeton Global Bond Adv Fund	810,329	810,329	-
Western Asset Core Plus Bond I	810,986	810,986	-
Equities:			
Black Rock Equity Dividend Institutional	348,411	348,411	-
Brandes Institutional International Equity I	340,745	340,745	-
Brandes Emerging Markets	132,516	132,516	-
Cohen & Steers Institutional Realty Shares	273,485	273,485	-
JHancock Classic Value I	353,512	353,512	-
Hartford Capital Appreciation Y	425,550	425,550	-
Hartford Midcap Y	181,422	181,422	-
American Funds New Perspective	177,273	177,273	-
American Funds New World F-2	128,497	128,497	-
Nuveen Tradewinds Value Opportunities I	254,325	254,325	-
Prudential Global Real Estate Z	265,099	265,099	-
Royce Global Value Invmt	372,128	372,128	-
Royce Special Equity Institutional	161,230	161,230	-
Thornburg Investment Income Builder	255,515	255,515	-
Thornburg International Value I	234,338	234,338	-
Various	10,822	10,822	-
Total	<u>\$ 31,493,811</u>	<u>\$ 31,493,811</u>	<u>\$ -</u>

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, 2014, 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, 2014, the District had the following investment that represented more than five percent of the District's net investments.

US Bank Money Market

71.8%

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 consisted of the following:

	Governmental Funds				Totals	Proprietary Fund
	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds		Self Insurance Fund
Federal Government:						
Categorical aid programs	\$ 3,761,663	\$ 2,083,725	\$ -	\$ 200,797	\$ 6,046,185	\$ -
State Government:						
LCFF	28,496,934	-	-	-	28,496,934	-
Lottery	3,107,213	-	-	-	3,107,213	-
Special education	4,796,408	-	-	-	4,796,408	-
Other state resources	1,146,540	124,962	-	178,628	1,450,130	-
Local:						
Interest	49,887	12,682	13,287	26,931	102,787	5,978
Trust reimbursement	5,189,787	-	-	-	5,189,787	-
Miscellaneous	249,026	6,201	89,612	13,340	358,179	-
Other local resources	741,666	-	-	11,066	752,732	-
Total	\$ 47,539,124	\$ 2,227,570	\$ 102,899	\$ 430,762	\$ 50,300,355	\$ 5,978

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2014 consisted of the following:

	Due From Other Funds				Total
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 2,338	\$ 7,914,785	\$ 820,492	\$ 8,737,615
Cafeteria Fund	2,224,061	-	7	24,222	2,248,290
Non-Major Governmental Funds	946,588	1,489	-	19,314	967,391
Proprietary Fund	53,743	252	1,141	-	55,136
Total	\$ 3,224,392	\$ 4,079	\$ 7,915,933	\$ 864,028	\$ 12,008,432

General Fund due to Special Reserve Fund for Capital Outlay Projects for repayment of a temporary loan	5,000,000
General Fund due to Deferred Maintenance Fund for annual contribution	1,438,350
Cafeteria Fund due to General Fund for vehicle repairs, fuel, year-end transfers, benefits, and indirect costs	1,382,316
General Fund due to Self Insurance Fund for year-end suspense transfers.	820,492
Child Development Fund due to General Fund for year-end suspense transfers, indirect costs, and 4th quarter ICD	729,799
All other interfund receivables/payables	2,637,475
Total	\$ 12,008,432

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2014 consisted of the following:

County School Facilities Fund to Capital Projects for Blended Component Units to reimburse fund for a portion of revenue received from the Office of Public School Construction for Fontana Middle School modernization	<u>\$ 1,519,927</u>
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FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 5 – 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.

At June 30, 2014, 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
Nonspendable:					
Revolving cash	\$ 75,000	\$ 9,970	\$ -	\$ -	\$ 84,970
Inventories	440	305,191	-	-	305,631
Prepaid expenditures	264,490	-	-	-	264,490
Total Nonspendable	<u>339,930</u>	<u>315,161</u>	<u>-</u>	<u>-</u>	<u>655,091</u>
Restricted:					
Categorical programs	19,197,214	-	-	297,544	19,494,758
Food service program	-	15,619,004	-	-	15,619,004
Capital projects	-	-	38,575,009	43,745,127	82,320,136
Debt service	-	-	-	18,753,089	18,753,089
Total Restricted	<u>19,197,214</u>	<u>15,619,004</u>	<u>38,575,009</u>	<u>62,795,760</u>	<u>136,186,987</u>
Committed:					
Adult education program	-	-	-	218,037	218,037
Deferred maintenance program	-	-	-	3,172,378	3,172,378
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,390,415</u>	<u>3,390,415</u>
Assigned:					
Other assignments	16,489,752	-	-	58,490	16,548,242
Total Assigned	<u>16,489,752</u>	<u>-</u>	<u>-</u>	<u>58,490</u>	<u>16,548,242</u>
Unassigned:					
Reserve for economic uncertainties	12,675,629	-	-	-	12,675,629
Remaining unassigned balances	21,090,079	-	-	-	21,090,079
Total Unassigned	<u>33,765,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,765,708</u>
Total	<u>\$ 69,792,604</u>	<u>\$ 15,934,165</u>	<u>\$ 38,575,009</u>	<u>\$ 66,244,665</u>	<u>\$ 190,546,443</u>

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	12,510,352	48,325	-	12,558,677
Total capital assets not being depreciated	<u>71,387,654</u>	<u>48,325</u>	<u>-</u>	<u>71,435,979</u>
Capital assets being depreciated:				
Improvement of sites	67,154,421	1,560,748	-	68,715,169
Buildings	623,284,644	254,052	-	623,538,696
Equipment	42,787,160	2,958,277	121,794	45,623,643
Total capital assets being depreciated	<u>733,226,225</u>	<u>4,773,077</u>	<u>121,794</u>	<u>737,877,508</u>
Accumulated depreciation for:				
Improvement of sites	(29,253,396)	(3,779,530)	-	(33,032,926)
Buildings	(162,723,546)	(15,463,277)	-	(178,186,823)
Equipment	(29,105,461)	(4,318,014)	(72,743)	(33,350,732)
Total accumulated depreciation	<u>(221,082,403)</u>	<u>(23,560,821)</u>	<u>(72,743)</u>	<u>(244,570,481)</u>
Total capital assets being depreciated, net	<u>512,143,822</u>	<u>(18,787,744)</u>	<u>49,051</u>	<u>493,307,027</u>
Governmental activity capital assets, net	<u>\$ 583,531,476</u>	<u>\$ (18,739,419)</u>	<u>\$ 49,051</u>	<u>\$ 564,743,006</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 229,504,501	\$ 12,975,000	\$ 20,889,566	\$ 221,589,935	\$ 5,217,516
Accreted interest component	14,324,199	4,681,851	2,965,434	16,040,616	3,132,484
Unamortized issuance premium	15,787,721	1,245,978	1,075,783	15,957,916	919,548
Total - Bonds	<u>259,616,421</u>	<u>18,902,829</u>	<u>24,930,783</u>	<u>253,588,467</u>	<u>9,269,548</u>
Certificates of Participation:					
Principal repayments	43,675,000	-	1,295,000	42,380,000	1,365,000
Unamortized issuance premium	551,431	-	25,065	526,366	25,065
Total - Certificates of Participation	<u>44,226,431</u>	<u>-</u>	<u>1,320,065</u>	<u>42,906,366</u>	<u>1,390,065</u>
Qualified Zone Academy Bond					
Scheduled deposits	1,981,022	-	247,628	1,733,394	247,627
Accumulated interest	1,015,315	-	266,556	748,759	76,079
Total - Qualified Zone Academy Bond	<u>2,996,337</u>	<u>-</u>	<u>514,184</u>	<u>2,482,153</u>	<u>323,706</u>
Compensated Absences	1,831,285	118,454	-	1,949,739	-
Supplemental Early Retirement	2,893,874	-	1,973,448	920,426	920,426
Other Postemployment Benefits	35,298,329	8,137,056	-	43,435,385	-
Totals	<u>\$ 346,862,677</u>	<u>\$ 27,158,339</u>	<u>\$ 28,738,480</u>	<u>\$ 345,282,536</u>	<u>\$ 11,903,745</u>

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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, 2014, 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, 2014, the principal balance outstanding on the previously defeased debt has been fully paid.

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 amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2014 of \$4,441,096 remain to be amortized. As of June 30, 2014, the principal balance outstanding on the defeased debt amounted to \$78,215,000.

2014 Refunding General Obligation Bonds

On May 22, 2014, the District issued \$12,975,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.25% and 5.0% with annual maturities from August 1, 2024 through August 1, 2031. The net proceeds of \$14,052,411 (after premiums of \$1,245,978 and issuance costs of \$168,567) were used to prepay a portion of the District's outstanding General Obligation Bonds Series 2006 A and the 2004 refunding.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2014 Refunding General Obligation Bonds (continued)

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 amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2014 of \$9,372 remain to be amortized. As of June 30, 2014, the principal balance outstanding on the defeased debt amounted to \$3,225,000.

The refunding decreased the District's total debt service payments by \$2,462,968. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$2,059,464.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2013	Additions	Deductions	Advance Refundings	Balance, June 30, 2014
Refunding Bonds									
1992R	8/1/1992	2018	2.9%-5.4%	\$ 23,668,126	\$ 920,599	\$ -	\$ 474,794	\$ -	\$ 445,805
1997R	6/18/1997	2018	4.40%-5.95%	18,670,227	3,828,553	-	739,772	-	3,088,781
2004R	6/17/2004	2020	3.0%-5.0%	18,930,000	11,900,000	-	1,215,000	10,685,000	-
2009R	2/11/2009	2022	3.0% - 5.25%	18,110,000	13,885,000	-	1,150,000	-	12,735,000
2012R	10/25/2012	2031	2.0%-5.0%	78,115,000	78,115,000	-	2,100,000	-	76,015,000
2014R	5/22/2014	2031	2.25%-5.0%	12,975,000	-	12,975,000	-	-	12,975,000
				Subtotal Refunding Bonds	108,649,152	12,975,000	5,679,566	10,685,000	105,259,586
2006 Series									
2006A	8/10/2006	2031	4.0%-5.25%	90,000,000	4,350,000	-	400,000	3,225,000	725,000
2006B	3/11/2008	2033	3.0% - 5.25%	70,585,909	69,245,909	-	900,000	-	68,345,909
2006C	10/25/2012	2044	5.0%-5.75%	47,259,440	47,259,440	-	-	-	47,259,440
				Subtotal 2006 Series	120,855,349	-	1,300,000	3,225,000	116,330,349
				Total	\$ 229,504,501	\$ 12,975,000	\$ 6,979,566	\$ 13,910,000	\$ 221,589,935
				Accreted Interest					
				1992R	\$ 2,502,048	\$ 222,562	\$ 1,405,206	\$ -	\$ 1,319,404
				1997R	7,147,081	756,254	1,560,228	-	6,343,107
				2006B	3,981,247	1,007,353	-	-	4,988,600
				2006C	693,823	2,695,682	-	-	3,389,505
					<u>\$ 14,324,199</u>	<u>\$ 4,681,851</u>	<u>\$ 2,965,434</u>	<u>\$ -</u>	<u>\$ 16,040,616</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2014***NOTE 8 - GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)**

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

Fiscal Year	Principal	Interest	Total
2014-15	\$ 5,217,516	\$ 9,820,496	\$ 15,038,012
2015-16	8,457,184	8,301,122	16,758,306
2016-17	7,576,175	8,261,563	15,837,738
2017-18	8,331,800	8,113,706	16,445,506
2018-19	9,226,910	7,954,971	17,181,881
2019-24	47,660,000	23,615,744	71,275,744
2024-29	69,925,000	10,772,106	80,697,106
2029-34	24,537,413	53,752,884	78,290,297
2034-39	21,275,229	56,424,771	77,700,000
2039-44	18,061,427	72,938,573	91,000,000
2044-45	1,321,281	6,678,720	8,000,001
Total	<u>\$ 221,589,935</u>	<u>\$ 266,634,656</u>	<u>\$ 488,224,591</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
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
2018-19	1,695,000	1,657,825	3,352,825
2019-24	10,025,000	6,871,625	16,896,625
2024-29	11,605,000	4,256,887	15,861,887
2029-34	7,080,000	2,106,450	9,186,450
2035-36	6,075,000	345,938	6,420,938
Total	<u>\$ 42,380,000</u>	<u>\$ 22,584,016</u>	<u>\$ 64,964,016</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 8 - GENERAL LONG-TERM DEBT (continued)

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.

Lease payments will be required as follows:

<u>Fiscal Year</u>	<u>Scheduled Deposit</u>	<u>Accumulated Interest</u>	<u>Total</u>
2014-15	\$ 247,627	\$ 76,079	\$ 323,706
2015-16	247,627	85,877	333,504
2016-17	247,628	95,956	343,584
2017-18	247,627	106,345	353,972
2018-19	247,628	117,030	364,658
2019-21	495,257	267,472	762,729
Total	<u>\$ 1,733,394</u>	<u>\$ 748,759</u>	<u>\$ 2,482,153</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. As of June 30, 2014, the previous balance has been paid in full.

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, 2014 amounts to \$892,619.

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, 2014 amounts to \$27,807.

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

<u>Fiscal Year</u>	<u>Total</u>
2014-15	<u>\$ 920,426</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2013 for the JPAs are as follows:

	REEP	ReLiEF
Assets	\$ 30,113,142	\$ 51,814,097
Liabilities	11,759,901	30,151,599
Net Assets	<u>\$ 18,353,241</u>	<u>\$ 21,662,498</u>
Revenues	\$ 126,649,627	\$ 15,186,581
Expenses	127,821,178	21,791,522
Operating Income	(1,171,551)	(6,604,941)
Non-Operating Income	51,792	32,817
Change in Net Assets	<u>\$ (1,119,759)</u>	<u>\$ (6,572,124)</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, 2014, the District had commitments with respect to unfinished capital projects of approximately \$942,000 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, 2014.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014, 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 2013-14, 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, 2012 to June 30, 2014:

	Workers' Compensation
Liability Balance, July 1, 2012	\$ 4,098,686
Claims and changes in estimates	3,776,725
Claims payments	<u>(2,655,683)</u>
Liability Balance, June 30, 2013	5,219,728
Claims and changes in estimates	930,776
Claims payments	<u>(1,162,227)</u>
Liability Balance, June 30, 2014	<u>\$ 4,988,277</u>
Assets available to pay claims at June 30, 2014	<u>\$ 7,585,671</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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 2013-14 was 11.442%. 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>
2013-14	\$ 6,104,931	100%
2012-13	\$ 5,889,243	100%
2011-12	\$ 5,459,375	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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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 2013-14 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
2013-14	\$ 12,889,160	100%
2012-13	\$ 12,896,725	100%
2011-12	\$ 12,688,220	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 2013-14).

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 \$261,592 during 2013-14. The total amount of covered compensation was \$3,487,898. 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, 2014***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)	\$ 13,135,612
Interest on net OPEB obligation	1,764,916
Adjustment to ARC	<u>(1,563,472)</u>
Annual OPEB cost	<u>13,337,056</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	(5,200,000)
Pay-as-you-go costs	<u>-</u>
Total contributions made	<u>(5,200,000)</u>
Increase in net OPEB liability	8,137,056
Net OPEB liability - July 1, 2013	<u>35,298,329</u>
Net OPEB liability - June 30, 2014	<u><u>\$ 43,435,385</u></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 2013-14 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Liability
2012	\$ 8,888,248	55%	\$ 29,086,114
2013	\$ 11,437,470	46%	\$ 35,298,329
2014	\$ 13,337,056	39%	\$ 43,435,385

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 years
Asset Valuation	Provided by District
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rate	4.0%
Inflation	2.75%

NOTE 14 – FUTURE GASB PRONOUNCEMENT

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the District's financial reporting:

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 14 – FUTURE GASB PRONOUNCEMENTS (continued)

Statement No. 68 (continued)

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.

Required Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 207,900,487	\$ 260,047,091	\$ 259,797,006	\$ (250,085)
Federal sources	23,277,807	28,550,794	22,827,026	(5,723,768)
Other state sources	68,178,882	46,454,422	46,233,761	(220,661)
Other local sources	2,574,205	4,612,778	4,940,130	327,352
Total Revenues	301,931,381	339,665,085	333,797,923	(5,867,162)
Expenditures				
Current:				
Certificated salaries	156,971,738	163,618,058	156,624,770	6,993,288
Classified salaries	45,979,570	46,615,722	45,961,896	653,826
Employee benefits	77,152,406	77,544,688	73,140,977	4,403,711
Books and supplies	13,460,873	31,862,436	10,260,100	21,602,336
Services and other operating expenditures	29,118,545	38,737,277	30,581,487	8,155,790
Transfers of indirect costs	(822,944)	(890,423)	(823,535)	(66,888)
Capital outlay	533,187	1,536,404	900,828	635,576
Intergovernmental	-	228,234	244,191	(15,957)
Total Expenditures	322,393,375	359,252,396	316,890,714	42,361,682
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,461,994)	(19,587,311)	16,907,209	36,494,520
Other Financing Sources and Uses				
Interfund Transfers Out	-	(11,705,204)	(11,705,204)	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,461,994)	(31,292,515)	5,202,005	36,494,520
Fund Balances, July 1, 2013	43,541,694	52,878,040	52,878,040	-
Fund Balances, June 30, 2014	\$ 23,079,700	\$ 21,585,525	\$ 58,080,045	\$ 36,494,520

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Federal sources	\$ 17,633,389	\$ 17,630,309	\$ 18,625,473	\$ 995,164
Other state sources	1,434,101	1,434,101	1,368,665	(65,436)
Other local sources	2,108,215	2,111,295	2,094,866	(16,429)
Total Revenues	21,175,705	21,175,705	22,089,004	913,299
Expenditures				
Current:				
Classified Salaries	6,104,901	6,195,664	6,052,140	143,524
Employee Benefits	3,415,506	3,235,423	3,155,331	80,092
Books and Supplies	9,377,535	10,714,786	10,830,187	(115,401)
Services and Other Operating Expenditures	347,000	14,369,010	327,925	14,041,085
Transfers of indirect costs	617,763	638,454	615,105	23,349
Capital Outlay	1,313,000	1,255,211	536,177	719,034
Total Expenditures	21,175,705	36,408,548	21,516,865	14,891,683
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(15,232,843)	572,139	15,804,982
Fund Balances, July 1, 2013	15,165,505	15,362,026	15,362,026	-
Fund Balances, June 30, 2014	\$ 15,165,505	\$ 129,183	\$ 15,934,165	\$ 15,804,982

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

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%
April 1, 2014	\$ 3,768,344	\$ 151,970,067	\$ 75,702,262	5.0%	\$ 209,587,696	36%

FONTANA UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2014

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, 2014, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Transfers of indirect costs	\$ 66,888
Intergovernmental	15,957
Cafeteria Fund:	
Books and supplies	115,401

Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2014

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

Member	Office	Term Expires
Gus Hawthorn	President	2014
Barbara L. Chavez	Vice-President	2016
Lorena Corona	Member	2016
Dr. Ayanna Blackman-Balogun	Member	2014
Shannon O'Brien	Member	2014

DISTRICT ADMINISTRATORS

Leslie Boozer, Ed.D., J.D.,
Superintendent

Randal Bassett,
Associate Superintendent, Business Services

Oscar Dueñas,
Associate Superintendent, Instructional Services

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

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2014

Second Period Report - Certificate No. (D8F0A190)

Regular ADA:	TK/K-3	Grades 4-6	Grades 7-8	Grades 9-12	Total
Regular ADA	12,207.26	8,559.55	5,579.96	12,265.50	38,612.27
Special Education - Nonpublic, Non Sectarian Schools	0.85	7.54	2.20	16.72	27.31
Extended Year Nonpublic, Nonsectarian Schools	0.07	0.42	0.10	1.45	2.04
Total ADA	12,208.18	8,567.51	5,582.26	12,283.67	38,641.62

Other (included in Regular ADA amounts):

Transitional Kindergarten	287.95
Continuation Education	712.23

Annual Report - Certificate No. (39158A8D)

Regular ADA:	TK/K-3	Grades 4-6	Grades 7-8	Grades 9-12	Total
Regular ADA	12,177.12	8,538.26	5,564.29	12,155.38	38,435.05
Special Education - Nonpublic, Non Sectarian Schools	0.78	8.07	2.75	18.73	30.33
Extended Year Nonpublic, Nonsectarian Schools	0.07	0.42	0.10	1.45	2.04
Total ADA	12,177.97	8,546.75	5,567.14	12,175.56	38,467.42

Other (included in Regular ADA amounts):

Transitional Kindergarten	287.08
Continuation Education	691.04

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2014

Grade Level	1986-87 Minutes		2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten	36,000	35,000	36,000	180	Complied
Grade 1	50,400	49,000	53,184	180	Complied
Grade 2	50,400	49,000	53,184	180	Complied
Grade 3	50,400	49,000	53,184	180	Complied
Grade 4	54,000	52,500	54,564	180	Complied
Grade 5	54,000	52,500	54,564	180	Complied
Grade 6	54,000	52,500	54,564	180	Complied
Grade 7	54,000	52,500	56,875	180	Complied
Grade 8	54,000	52,500	56,875	180	Complied
Grade 9	64,800	63,000	65,070	179**	Complied
Grade 10	64,800	63,000	65,070	179**	Complied
Grade 11	64,800	63,000	65,070	179**	Complied
Grade 12	64,800	63,000	65,070	179**	Complied

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

** Fontana High School was closed for one day during the school year for a total of 179

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2014

General Fund	(Budget) 2015 ²	2014*	2013	2012
Revenues and other financing sources	\$ 358,441,641	\$ 333,797,923	\$ 308,252,107	\$ 314,762,161
Expenditures	351,940,108	316,890,714	314,535,174	309,931,646
Other uses and transfers out	-	11,705,204	1,397	-
Total outgo	<u>351,940,108</u>	<u>328,595,918</u>	<u>314,536,571</u>	<u>309,931,646</u>
Change in fund balance (deficit)	<u>6,501,533</u>	<u>5,202,005</u>	<u>(6,284,464)</u>	<u>4,830,515</u>
Ending fund balance	<u>\$ 64,581,578</u>	<u>\$ 58,080,045</u>	<u>\$ 52,878,040</u>	<u>\$ 59,162,504</u>
Available reserves ¹	<u>\$ 39,963,764</u>	<u>\$ 33,765,708</u>	<u>\$ 35,840,426</u>	<u>\$ 12,397,266</u>
Available reserves as a percentage of total outgo	<u>11.4%</u>	<u>10.3%</u>	<u>11.4%</u>	<u>4.0%</u>
Total long-term debt	<u>\$ 338,088,955</u>	<u>\$ 345,282,536</u>	<u>\$ 346,862,677</u>	<u>\$ 402,724,861</u>
Average daily attendance at P-2	<u>38,210</u>	<u>38,642</u>	<u>38,975</u>	<u>39,107</u>

The General Fund balance has decreased by \$1,082,459 over the past two years. The fiscal year 2014-15 adopted budget projects an increase of \$6,501,533. 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, and does not anticipate incurring an operating deficit during the 2014-15 fiscal year. Long-term debt has decreased by \$57,442,325 over the past two years.

Average daily attendance has decreased by 465 over the past two years. A decrease of 432 ADA is anticipated during fiscal year 2014-15.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Revised Final Budget September, 2014.

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Program - Especially Needy	10.553	13526	\$ 3,116,260	
National School Lunch Program	10.555	13523	14,305,702	
USDA Donated Foods	10.555	N/A	<u>1,145,366</u>	
Total Child Nutrition Cluster				<u>\$ 18,567,328</u>
Total U.S. Department of Agriculture				<u>18,567,328</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	97,208	
Adult Basic Education & ESL	84.002A	14508	<u>42,861</u>	
Total Adult Education Cluster				140,069
No Child Left Behind (NCLB):				
Title I, Part A Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	10,689,174	
Title I, Part D, Local Delinquent Programs	84.010	14357	<u>25,609</u>	
Total Title I, Part A Cluster				10,714,783
School Improvement Grant Cluster				
Title I, School Improvement Grant (SIG)	84.377	15127	77,195	
ARRA Title I, School Improvement Grant (SIG)	84.388	15004	<u>191,687</u>	
Total School Improvement Grant Cluster				268,882
Title II, Part A, Administrator Training	84.367	14344		1,778,756
Title III, Limited English Proficiency	84.365	14346		1,114,553
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349		242,497
Carl Perkins Act - Secondary	84.048	14894		325,694
Safe & Supportive Schools, Programmatic Intervention	84.184	N/A		465,099
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
Local Assistance Entitlement	84.027	13379	6,134,491	
Preschool Local Entitlement, Part B	84.173	13682	228,946	
Preschool Staff Development	84.173A	13431	1,041	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	8,580	
Sp Ed Preschool	84.173	13430	159,134	
Sp Ed Mental Health Allocation	84.027	14468	<u>443,567</u>	
Total Special Education Cluster				6,975,759
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		<u>214,324</u>
Total U.S. Department of Education				<u>22,370,301</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		567,374
Head Start Cluster				
Head Start	93.600	10016	162,888	
Head Start ARRA	93.600	10016	<u>274,170</u>	
Total Head Start Cluster				437,058
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013		<u>484,885</u>
Total U.S. Department of Health & Human Services				<u>1,489,317</u>
Total Expenditures of Federal Awards				<u>\$ 42,426,946</u>

FONTANA UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2014*

*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, 2014

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 participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, 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, 2014, 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 December 3, 2014.

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

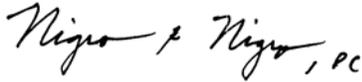
As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 through 2014-3.

Fontana Unified School District's Responses to Findings

Fontana Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Fontana Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Murrieta, California
December 3, 2014



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Fontana Unified School District
Fontana, California

Report on Compliance for State Programs

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 2013-14, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Fontana Unified School District's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Fontana Unified School District's State programs based on our audit of the types of compliance requirements referred to below. 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 2013-14. 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 on compliance for each State program. However, our audit does not provide a legal determination of Fontana Unified School District's compliance.

Table with 3 columns: Description, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time for School Districts, Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, and Early Retirement Incentive.

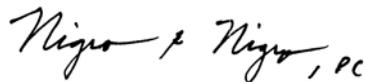
Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
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
Charter School Facility Grant Program	1	Not applicable

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

Opinion on Compliance with State Programs

In our opinion, Fontana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

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 2013-14*. Accordingly, this report is not suitable for any other purpose.



Murrieta, California
December 3, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND 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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 through 2014-3. Our opinion on each major federal program is not modified with respect to these matters.

Fontana Unified School District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Fontana Unified School District's response were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

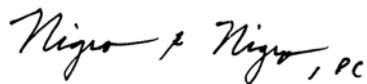
Report on Internal Control Over Compliance

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.



Murrieta, California
December 3, 2014

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, 2014

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>Yes</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>10.553, 10.555</u> <u>Child Nutrition Cluster</u>	
<u>84.367</u> <u>Title II, Part A, Administrator Training</u>	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,272,808</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, 2014

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 2013-14.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

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).

Finding 2014-1: National School Lunch Program OPEB Cost Allocations (50000)

Program Identification: Child Nutrition Cluster

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: School Breakfast Program (CFDA No. 10.553)
National School Lunch Program (CFDA No. 10.555)

Criteria: Expenditures for other postemployment benefits (OPEB) relating to previously retired employees represent costs that were not funded during the employees' years of service and those that cannot be identified with any program objective currently. These costs represent an obligation for which the District is liable but from which current programs derive no direct benefit. Federal programs may absorb a share of OPEB costs relating to retirees only if the costs are allocated to all activities and only if the allocation base is as broad as possible.

Condition: The District charged retirees who worked under the Food service program directly to the National School Lunch Program.

Questioned Costs: \$133,959

Cause: The District charged the specific fund and program for the retiree rather than charge the costs across all activities. The District felt the charges were equitable between the general fund and the food service fund because the retiree salary while active originated in that fund.

Recommendation: We recommend the District allocate retiree OPEB costs across all activities broadly.

District Response: The District has made adjustments to pay for retiree benefits equitably across all activities. A contribution from the General Fund has been made in the amount of \$133,959 to account for costs associated with the 2013-14 school year.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2014-2: National School Lunch Program Cash Reserves (50000)

Program Identification: Child Nutrition Cluster

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: School Breakfast Program (CFDA No. 10.553)
National School Lunch Program (CFDA No. 10.555)

Criteria: The school food authority (SFA) should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).

Condition: At June 30, 2014, the fund balance in the Cafeteria Fund was \$15,619,004. Three months average expenditures are \$5,078,340. The excess cash reserves are \$10,540,664.

Questioned Costs: None.

Context: None.

Effect: The District will need to identify ways to spend down the excess reserves to bring them into compliance.

Cause: The District has an excessive yearly fund balance in the food service account because of increasing revenues and transfers over expenditures. The current year increase was due to a transfer from the General Fund to correct unallowable costs identified in a recent audit.

Recommendation: We recommend the District submit a spending plan to CDE and obtain approval in spending the excess of allowable funds.

District Response: At the outset of the 2013-14 school year the District developed a plan to address the excess of allowable cafeteria funds. Since that time, the District has been implementing the plan by offering expanded services and improved equipment. Some of the examples of these expenditures include increased positions, redesign of kitchens, and the addition of delivery vehicles dedicated to supporting the program. The District anticipates the excess to be eliminated in a timely yet prudent timeframe.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2014-3: National School Lunch Program Expenditures (50000)

Program Identification: Child Nutrition Cluster

Federal Agency: U.S. Department of Agriculture
Pass-through Entity: California Department of Education
Program Names: School Breakfast Program (CFDA No. 10.553)
National School Lunch Program (CFDA No. 10.555)

Criteria: School Food Authorities participating in the Federal School Nutrition Program must observe both State and Federal limitations on the use of cafeteria funds. The District should ensure that all expenditures are in accordance with 7 CFR parts 210, 220, 3015, 3016, and 3019, and 2 CFR parts 225 and 230 (formerly Office of Management and Budgets Circulars A-87 and A-122 respectively).

Condition: The District charged unallowable expenditures to cafeteria fund. Two exceptions were for custom kitchen staff apparel. As per the U.S. Department of Labor, the cost of maintenance of uniforms when required by the employer is allowable and considered to be a business expense and allowable, however, customizable apparel to promote the governmental unit is unallowable. Two exceptions were for promotional items for students and staff. As per 2 CFR, Part 225, Appendix B, Item 1, Advertising and Public Relations Costs, Section f(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs are not allowable.

Questioned Costs: The sum of the inappropriate expenditures were \$22,348.

Context: Four out of our forty expenditures tested.

Effect: The district should transfer in funds from unrestricted sources to reimburse the cafeteria program for the unallowable expenses.

Cause: The District misunderstood what were allowable expenditures.

Recommendation: The District should place the proper procedures and policies in place to ensure that expenditures are made in accordance with State and Federal Guidelines.

District Response: The District has made contributions from unrestricted sources to reimburse cafeteria funds for unallowable expenses. Staff will receive additional training to ensure elimination of future unallowable expenses.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

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 2013-14.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2014

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

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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, 2014, 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 December 3, 2014, 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 254 employees that have accrued vacation exceeding this carryover limit. The cost of this excess carryover is estimated to be \$345,374 as of June 30, 2014.

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 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.

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.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

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 High School, we noted that thirteen 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.

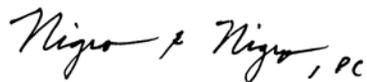
Observation: During our review of disbursements at various middle and high schools, we noted that some of the disbursements selected in our sample were not approved by a District representative, the ASB advisor, and a student representative prior to incurring the expense. Education Code Section 48933(b) 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 review of disbursements at Jurupa Hills High, we noted that there was an account named “AP Test”, which serves as a clearing fund for the District and is not a club which is 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.

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



Murrieta, California
December 3, 2014