

**FONTANA UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2015**



FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2015
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For the Fiscal Year Ended June 30, 2015

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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, 2015, 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 the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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, 2015, 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.I. to the basic financial statements, the District has changed its method for accounting and reporting for pensions during fiscal year 2014-15 due to the adoption of Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27" and No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68". The adoption of these standards required retrospective application resulting in a \$284,669,037 reduction of previously reported net position at July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

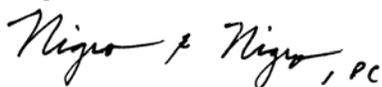
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, budgetary comparison information on pages 54 and 55, schedule of funding progress on page 56, schedule of proportionate share of the net pension liability on page 57, and schedule of contributions on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information on pages 62 to 65 and the schedule of expenditures of federal awards on page 66 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 61 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 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
November 16, 2015

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

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, 2015. 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 \$13.7 million, or 10.6%.
- Governmental expenses were about \$429.3 million. Revenues were about \$443.0 million.
- The District acquired over \$11.6 million in new capital assets during the year. These expenditures were incurred primarily from construction in progress and equipment purchases.
- The District decreased its outstanding long-term debt by \$59.9 million. This was primarily due to reduction of general obligation bonds and net pension liability.
- Grades K-12 average daily attendance (ADA) decreased by 536, or 1.4%.

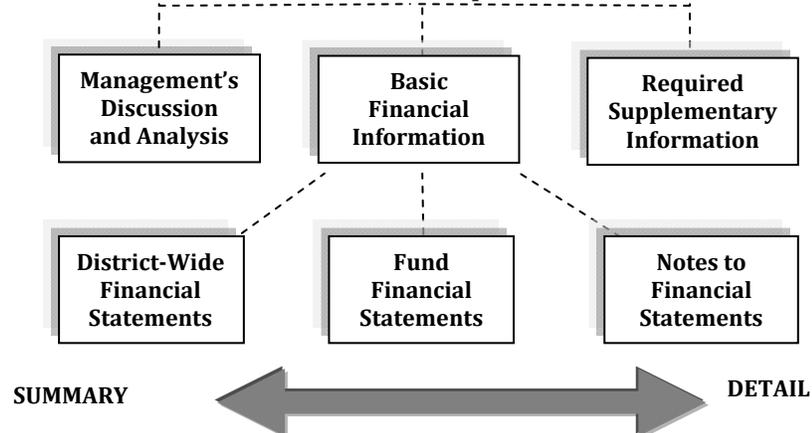
OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2015

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, 2015

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, 2015

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, 2015, than it was the year before – increasing 10.6% to \$142.5 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2015	2014 *	
Current assets	\$ 249.2	\$ 224.5	\$ 24.7
Capital assets	553.1	564.7	(11.6)
Total assets	802.3	789.2	13.1
Total deferred outflows	38.2	22.1	16.1
Current liabilities	44.6	35.0	9.6
Long-term liabilities	587.6	647.5	(59.9)
Total liabilities	632.2	682.5	(50.3)
Total deferred inflows	65.8	-	65.8
Net position			
Net investment in capital assets	316.5	320.4	(3.9)
Restricted	91.4	97.6	(6.2)
Unrestricted	(265.4)	(289.2)	23.8
Total net position	\$ 142.5	\$ 128.8	\$ 13.7

* As restated

Changes in net position, governmental activities. The District's total revenues increased 11.9% to \$443.0 million (See Table A-2). The increase is due primarily to federal and state funding.

The total cost of all programs and services increased 10.2% to \$429.3 million. The District's expenses are predominantly related to educating and caring for students, 78%. The purely administrative activities of the District accounted for just 3.1% 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, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2015	2014	
Total Revenues	\$ 443.0	\$ 395.8	\$ 47.2
Total Expenses	429.3	389.4	39.9
Increase (decrease) in net position	\$ 13.7	\$ 6.4	\$ 7.3

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 \$205.3 million, which is above last year's ending fund balance of \$190.5 million. The primary cause of the increased fund balance is an increase in state and federal revenue.

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 \$15.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$9.7 million due to labor negotiation settlements.
- Other non-personnel expenses – increased \$24.6 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 \$12.7 million, the actual results for the year show that revenues exceeded expenditures by roughly \$17.7 million. Actual revenues were \$9.2 million more than anticipated, and expenditures were \$21.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2015, that will be carried over into the 2015-16 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014-15 the District had invested \$11.6 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$23.2 million.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
Land	\$ 58.9	\$ 58.9	\$ -
Improvement of sites	32.4	35.7	(3.3)
Buildings	431.1	445.3	(14.2)
Equipment	11.3	12.3	(1.0)
Construction in progress	19.4	12.5	6.9
Total	\$ 553.1	\$ 564.7	\$ (11.6)

Long-Term Debt

At year-end the District had \$587.6 million in general obligation bonds, certificates of participation, QZABs, net pension liability, and employment benefits – a decrease of 9.3% 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 (In millions)		Variance Increase (Decrease)
	2015	2014 *	
General obligation bonds	\$ 249.0	\$ 253.6	\$ (4.6)
Certificates of participation	41.5	42.9	(1.4)
QZABs	2.2	2.5	(0.3)
Compensated absences	2.0	2.0	-
Supplemental retirement	-	0.9	(0.9)
Other postemployment benefits	49.4	43.4	6.0
Net pension liability	243.5	302.2	(58.7)
Total	\$ 587.6	\$ 647.5	\$ (59.9)

* As restated

FACTORS BEARING ON THE DISTRICT'S FUTURE

Overview

On June 16, 2015, the Governor, the Senate President pro Tempore, and the Speaker of the Assembly announced a budget agreement. The Legislature passed the budget bill and related legislation on Friday, June 19. The budget agreement relies on the administration's May 2015 estimates of (1) General Fund revenues, (2) the Proposition 98 minimum guarantee for schools and community colleges, and (3) budget reserve and debt payment requirements under Proposition 2. School and community college funding is the centerpiece of the agreement, as administration estimates of the Proposition 98 minimum guarantee have increased substantially over June 2014 levels. With savings resulting from (1) rejection of various administration proposals, (2) an error in the administration's Medi-Cal estimates, (3) legislative changes made to the Middle-Class Scholarship Program, and (4) other legislative actions, the agreement makes modest augmentations outside of Proposition 98 above May Revision levels.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Overview (continued)

2015-16 to End With \$4.6 Billion in Estimated Total Reserves

The budget agreement assumes \$115 billion in revenues, a 3.3 percent increase over 2014-15. (This total is net of the \$1.9 billion deposit in the Proposition 2 Budget Stabilization Account [BSA].) The state's "big three" General Fund taxes—the personal income tax, sales and use tax, and corporation tax—are estimated to increase at a slightly higher rate (4 percent). General Fund revenue growth was much higher in 2014-15, increasing at a very healthy 7.7 percent rate. General Fund spending is largely flat across 2014-15 and 2015-16, increasing at only 0.8 percent. Growth in ongoing programmatic spending, however, is masked by various one-time actions, including one-time spending in 2014-15 on debt payments and mandate backlog claims, and the end of the "triple flip" mechanism used to finance the state's prior deficit financing bonds. The budget ends 2015-16 with \$4.6 billion in estimated total reserves, including \$1.1 billion in the Special Fund for Economic Uncertainties—the state's traditional budget reserve—and \$3.5 billion in the BSA.

Proposition 98

Substantial Upward Revisions to Estimates of Proposition 98 Minimum Guarantee

State budgeting for preschool, elementary and secondary schools, and the California Community Colleges (CCC) is based primarily on Proposition 98, approved by voters in 1988. Proposition 98 established a minimum funding requirement commonly called the minimum guarantee. The estimate of the 2013-14 and 2014-15 minimum guarantees have increased \$612 million and \$5.4 billion, respectively from the June 2014 estimates. The estimate of the 2015-16 minimum guarantee is \$7.6 billion (12 percent) higher than the *2014-15 Budget Act* level. These increases in the guarantee are due primarily to state revenues being higher than assumed in last year's budget package. The budget package funds at these latest estimates of the minimum guarantees.

Large Upward 2014-15 Adjustments Result in Relatively Modest Year-Over-Year Growth

Growth from the revised 2014-15 level to 2015-16 is \$2.1 billion (3 percent). This relatively modest growth is due to the large upward revision to 2014-15 noted above. In 2015-16, total Proposition 98 funding is \$68.4 billion. Of this amount, \$49.4 billion is General Fund and \$19 billion is local property tax revenue. The notable increase in local property tax revenue from 2014-15 to 2015-16 (\$2.3 billion, 14 percent) is due in large part to the end of the triple flip and the shift of associated local property tax revenue back from cities, counties, and special districts to school and community college districts. Growth in local property tax revenue is slightly greater than growth in the Proposition 98 minimum guarantee, resulting in a slight reduction in Proposition 98 General Fund from 2014-15 to 2015-16.

Per-Student Funding Increases Significantly

Under the budget package, K-12 per-student funding increases from the *2014-15 Budget Act* level of \$8,931 to \$9,942 in 2015-16—an increase of \$1,011 (11 percent).

Budget Package Contains Many Spending Changes

For 2013-14, the budget accounts for higher Local Control Funding Formula (LCFF) costs and uses the remaining funding increase for paying down the K-14 mandate backlog. In addition to these changes, the budget package includes a \$256 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2006-07 and 2009-10 and \$207 million in unspent prior-year Proposition 98 funds that have been repurposed.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Package Notably Reduces Outstanding K-14 Obligations

The budget package includes the following K-14 actions, all of which reduce the state's outstanding K-14 obligations.

- ***Pays Down Mandate Backlog.*** The budget package includes \$3.8 billion to pay down the K-14 mandate backlog (\$3.2 billion is for the K-12 backlog and \$632 million for the CCC backlog). After accounting for these payments, the LAO estimates the outstanding K-14 mandate backlog to be \$1.5 billion (\$1.2 billion for schools and about \$300 million for community colleges).
- ***Retires All K-14 Payment Deferrals.*** As required by trailer legislation enacted last year, the budget package provides \$992 million to eliminate all remaining K-14 payment deferrals. The budget year will be the first fiscal year since 2000-01 that the state is set to make all K-14 payments on time.
- ***Pays Off Emergency Repair Program (ERP) Obligation.*** The budget includes \$273 million for the final ERP payment. Statute requires the state to provide a total of \$800 million to school districts for emergency facility repairs, and the state has provided \$527 million to date. (Of the \$273 million, \$145 million comes from a settle-up payment and \$128 million comes from unspent prior-year Proposition 98 funds.)

K-12 Education

Large Increase for Local Control Funding Formula (LCFF)

The largest single augmentation in the state budget is \$6.0 billion for implementing the LCFF for school districts and charter schools—bringing total LCFF funding to \$52 billion. This reflects a 13 percent year-over-year increase in LCFF funding. The administration estimates this funding will close 52 percent of the remaining gap to LCFF target rates. The budget funds 90 percent of the estimated statewide full LCFF implementation cost. School districts and charter schools may use LCFF monies for any educational purpose, including implementation of their Local Control and Accountability Plans.

New Secondary School Career Technical Education (CTE) Competitive Grant Program

The budget package includes \$900 million in one-time funding for a three-year competitive grant program to promote high-quality CTE. Of this amount, \$400 million is provided in 2015-16, \$300 million in 2016-17, and \$200 million in 2017-18. School districts, county offices of education (COEs), charter schools, and Regional Occupational Centers and Programs operated by joint powers agencies (JPAs) may apply for grants, individually or in consortia. The program provides separate pools of funding for large, medium-sized, and small applicants, based on applicants' average daily attendance (ADA) in grades 7-12. Specifically, 88 percent of the funding is reserved for applicants with ADA greater than 550, 8 percent is reserved for applicants with ADA between 140 and 550, and 4 percent is reserved for applicants with less than 140 ADA. The Superintendent of Public Instruction (SPI), in collaboration with the executive director of the State Board of Education (SBE), will determine the number of grants to be awarded and specific grant amounts.

Package of Special Education Actions

The budget includes \$67 million for a package of special education-related activities. Of the \$67 million, \$52 million is ongoing and \$15 million is one time. The largest ongoing augmentation in this package is for expanding services for infants, toddlers, and preschoolers with disabilities as well as requiring preschool staff training and parent education relating to identifying and meeting preschoolers' special needs. The largest one-time augmentation is for one or two COEs to develop statewide resources and training opportunities for addressing students' diverse instructional and behavioral needs.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education (continued)

Second Round of Internet Infrastructure Grants

The budget includes \$50 million in one-time funding for the second round of Broadband Internet Infrastructure Grants. The K-12 High Speed Network is to award grants to schools that cannot administer online tests or can only administer the tests by shutting down other essential online activities such as email. Grants may be used to purchase Internet infrastructure. The Department of Finance (DOF) must approve projects resulting in costs exceeding \$1,000 per test-taking pupil.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2015-16 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, 2015*

	Total Governmental Activities
ASSETS	
Cash	\$ 197,674,355
Investments	27,501,530
Accounts receivable	23,625,292
Inventories	133,887
Prepaid expenses	244,192
Non-depreciable assets	78,308,579
Depreciable assets	742,582,598
Less accumulated depreciation	<u>(267,773,790)</u>
Total assets	<u>802,296,643</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	4,188,706
Adjustment due to differences in proportions	3,437,391
Amounts contributed to the pension plan subsequent to the measurement date	<u>30,609,053</u>
Total deferred outflows of resources	<u>38,235,150</u>
LIABILITIES	
Accounts payable	44,118,306
Unearned revenue	521,762
Long-term debt:	
Portion due or payable within one year	12,923,118
Portion due or payable after one year	<u>574,726,190</u>
Total liabilities	<u>632,289,376</u>
DEFERRED INFLOWS OF RESOURCES	
Net differences between projected and actual earnings on pension plan investments	<u>65,753,213</u>
NET POSITION	
Net investment in capital assets	316,453,152
Restricted for:	
Capital projects	41,160,225
Debt service	21,259,290
Educational programs	29,007,916
Unrestricted	<u>(265,391,379)</u>
Total net position	<u>\$ 142,489,204</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2015

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	\$ 239,039,358	\$ 703,179	\$ 52,128,511	\$ (2,274,842)	\$ (188,482,510)
Instruction-Related Services:					
Supervision of instruction	21,735,852	139,654	9,985,761	-	(11,610,437)
Instructional library, media and technology	4,031,951	-	207,779	-	(3,824,172)
School site administration	22,190,122	43,625	578,347	-	(21,568,150)
Pupil Support Services:					
Home-to-school transportation	3,960,016	-	-	-	(3,960,016)
Food services	22,515,920	1,737,917	19,543,628	-	(1,234,375)
All other pupil services	22,239,446	24,005	5,401,191	-	(16,814,250)
General Administration Services:					
Data processing services	6,442,931	-	-	-	(6,442,931)
Other general administration	6,761,023	92,193	2,814,682	-	(3,854,148)
Plant services	42,617,610	225,084	655,437	-	(41,737,089)
Ancillary services	31,158	-	-	-	(31,158)
Community services	1,026,787	279,954	26,752	-	(720,081)
Enterprise activities	26,292	-	-	-	(26,292)
Interest on long-term debt	13,056,338	-	-	-	(13,056,338)
Other outgo	383,339	6,180,407	87,414	-	5,884,482
Depreciation (unallocated)	23,236,735	-	-	-	(23,236,735)
Total Governmental Activities	\$ 429,294,878	\$ 9,426,018	\$ 91,429,502	\$ (2,274,842)	(330,714,200)
General Revenues:					
Property taxes					49,051,047
Federal and state aid not restricted to specific purpose					290,894,890
Interest and investment earnings					430,522
Interagency revenues					927,437
Miscellaneous					3,092,758
Total general revenues					344,396,654
Change in net position					13,682,454
Net position - July 1, 2014, as originally stated					413,475,787
Adjustment for restatement (Note 1.1)					(284,669,037)
Net position - July 1, 2014, as restated					128,806,750
Net position - June 30, 2015					\$ 142,489,204

FONTANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2015

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 100,939,233	\$ 13,362,651	\$ 11,049,196	\$ 66,593,713	\$ 191,944,793
Investments	-	-	27,501,530	-	27,501,530
Accounts receivable	17,594,703	4,716,572	10,033	1,297,892	23,619,200
Due from other funds	3,617,093	8,752	-	1,255,685	4,881,530
Inventories	928	132,959	-	-	133,887
Prepaid expenditures	244,054	-	-	138	244,192
Total Assets	<u>\$ 122,396,011</u>	<u>\$ 18,220,934</u>	<u>\$ 38,560,759</u>	<u>\$ 69,147,428</u>	<u>\$ 248,325,132</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 31,231,895	\$ 278,555	\$ 139,461	\$ 3,234,197	\$ 34,884,108
Due to other funds	3,601,777	2,982,351	-	1,022,636	7,606,764
Unearned revenue	42,104	-	-	479,658	521,762
Total Liabilities	<u>34,875,776</u>	<u>3,260,906</u>	<u>139,461</u>	<u>4,736,491</u>	<u>43,012,634</u>
Fund Balances					
Nonspendable	319,982	142,929	-	138	463,049
Restricted	13,949,374	14,817,099	38,421,298	62,660,958	129,848,729
Committed	-	-	-	1,689,529	1,689,529
Assigned	17,664,066	-	-	60,312	17,724,378
Unassigned	55,586,813	-	-	-	55,586,813
Total Fund Balances	<u>87,520,235</u>	<u>14,960,028</u>	<u>38,421,298</u>	<u>64,410,937</u>	<u>205,312,498</u>
Total Liabilities and Fund Balances	<u>\$ 122,396,011</u>	<u>\$ 18,220,934</u>	<u>\$ 38,560,759</u>	<u>\$ 69,147,428</u>	<u>\$ 248,325,132</u>

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2015

Total fund balances - governmental funds \$ 205,312,498

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:	820,891,177	
Accumulated depreciation:	<u>(267,773,790)</u>	
Net:		553,117,387

Deferred amounts 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 amounts on refunding at the end of the period were:

4,188,706

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:

(3,489,201)

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	249,029,081	
Net pension liability	243,517,899	
Certificates of participation payable	41,516,301	
QZAB bonds payable	2,158,446	
Compensated absences	1,983,702	
Other postemployment benefits payable	<u>49,443,879</u>	
Total		(587,649,308)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	34,046,444	
Deferred inflows of resources relating to pensions	<u>(65,753,213)</u>	
Net:		(31,706,769)

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:

2,715,891

Total net position - governmental activities \$ 142,489,204

FONTANA UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2015

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 304,478,927	\$ -	\$ -	\$ 400,000	\$ 304,878,927
Federal sources	22,478,789	19,174,309	-	1,394,999	43,048,097
Other state sources	49,746,535	1,473,925	-	3,708,065	54,928,525
Other local sources	6,110,676	1,881,345	5,062,600	25,437,345	38,491,966
Total Revenues	<u>382,814,927</u>	<u>22,529,579</u>	<u>5,062,600</u>	<u>30,940,409</u>	<u>441,347,515</u>
EXPENDITURES					
Current:					
Instruction	234,719,405	-	-	5,817,125	240,536,530
Instruction-related services:					
Supervision of instruction	20,655,572	-	-	1,592,660	22,248,232
Instructional library, media and technology	3,744,775	-	-	-	3,744,775
School site administration	21,955,041	-	-	302,596	22,257,637
Pupil support services:					
Home-to-school transportation	3,942,629	-	-	-	3,942,629
Food services	199,198	22,248,430	-	17,235	22,464,863
All other pupil services	22,525,854	-	-	239,432	22,765,286
Ancillary services	31,158	-	-	-	31,158
Community services	1,048,505	-	-	-	1,048,505
General administration services:					
Data processing services	6,428,856	-	-	-	6,428,856
Other general administration	7,935,132	-	-	144,594	8,079,726
Plant services	40,759,822	37,788	34,398	2,124,316	42,956,324
Transfers of indirect costs	(1,239,262)	928,349	-	310,913	-
Intergovernmental	383,078	-	-	-	383,078
Capital outlay	1,791,012	495,670	1,894,186	6,538,923	10,719,791
Debt service:					
Issuance costs	-	-	261	-	261
Principal	-	-	1,365,000	5,465,144	6,830,144
Interest	-	-	1,922,466	10,221,199	12,143,665
Total Expenditures	<u>364,880,775</u>	<u>23,710,237</u>	<u>5,216,311</u>	<u>32,774,137</u>	<u>426,581,460</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>17,934,152</u>	<u>(1,180,658)</u>	<u>(153,711)</u>	<u>(1,833,728)</u>	<u>14,766,055</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	206,521	-	-	206,521
Interfund transfers out	(206,521)	-	-	-	(206,521)
Total Other Financing Sources and Uses	<u>(206,521)</u>	<u>206,521</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	17,727,631	(974,137)	(153,711)	(1,833,728)	14,766,055
Fund Balances, July 1, 2014	69,792,604	15,934,165	38,575,009	66,244,665	190,546,443
Fund Balances, June 30, 2015	<u>\$ 87,520,235</u>	<u>\$ 14,960,028</u>	<u>\$ 38,421,298</u>	<u>\$ 64,410,937</u>	<u>\$ 205,312,498</u>

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, 2015

Total net change in fund balances - governmental funds

Amounts reported for governmental <i>activities</i> in the statement of activities are different because:	\$ 14,766,055
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	10,719,792
Depreciation expense	<u>(23,236,735)</u>
Net:	(12,516,943)
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:	891,324
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:	6,906,224
Deferred amounts 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 amounts and current year amortization is:	(261,762)
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:	944,614
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:	(1,577,679)
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:	(93,925)
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:	(33,963)
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:	920,426
In government funds, pension costs are recognized when employer contributions are made in the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis and actual employer contributions was:	9,444,371
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statements of activities costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was:	(6,008,494)
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:	<u>302,206</u>
Change in net position of governmental activities	<u>\$ 13,682,454</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2015

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 5,729,562
Accounts receivable	6,092
Due from other funds	<u>2,787,372</u>
Total assets	<u>8,523,026</u>
LIABILITIES	
Estimated liability for open claims and IBNRs	5,541,156
Accounts payable	203,841
Due to other funds	<u>62,138</u>
Total liabilities	<u>5,807,135</u>
NET POSITION	
Restricted	<u><u>\$ 2,715,891</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, 2015*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 2,790,283
Other local revenues	<u>65,004</u>
Total operating revenues	<u>2,855,287</u>
OPERATING EXPENSES	
Payments for personnel costs	291,304
Payments for materials and supplies	1,059
Payments for claims and other operating expenses	<u>2,285,840</u>
Total operating expenses	<u>2,578,203</u>
OPERATING INCOME (LOSS)	277,084
NON-OPERATING REVENUES	
Interest income	<u>25,122</u>
Change in net position	302,206
Net position, July 1, 2014	<u>2,413,685</u>
Net position, June 30, 2015	<u><u>\$ 2,715,891</u></u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2015

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Self-insurance premiums	\$ 2,790,283
Cash received from other local sources	65,004
Other operating transfers	(1,916,342)
Cash paid for operating expenses	<u>(1,950,056)</u>
Net cash used by operating activities	(1,011,111)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>25,008</u>
Net decrease in cash	(986,103)
Cash, July 1, 2014	<u>6,715,665</u>
Cash, June 30, 2015	<u><u>\$ 5,729,562</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ 277,084
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	(1,923,344)
Increase in accounts payable and estimated claims liability	628,147
Increase in amounts due to other funds	<u>7,002</u>
Net cash used by operating activities	<u><u>\$ (1,011,111)</u></u>

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Fiduciary Net Position**June 30, 2015*

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,444,442	\$ 1	\$ 1,444,443
Investments	-	11,184,877	11,184,877
Accounts receivable	7,934	-	7,934
Miscellaneous	6,747	-	6,747
Inventories - supplies and materials	110,470	-	110,470
Prepaid expenses	9,544	-	9,544
Scholarship funds	102,141	-	102,141
Total assets	<u>\$ 1,681,278</u>	<u>11,184,878</u>	<u>12,866,156</u>
LIABILITIES			
Accounts payable	\$ 179,636	5,339,289	5,518,925
Due to student groups	1,501,642	-	1,501,642
Total liabilities	<u>\$ 1,681,278</u>	<u>5,339,289</u>	<u>7,020,567</u>
NET POSITION			
Restricted		<u>\$ 5,845,589</u>	<u>\$ 5,845,589</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2015

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 378,706
Decrease in fair value of investments	(148,595)
In-district contributions	<u>7,375,000</u>
Total Additions	7,605,111
DEDUCTIONS	
Operating expenses	<u>5,668,849</u>
Change in net position	1,936,262
Net position - July 1, 2014	<u>3,909,327</u>
Net position - June 30, 2015	<u><u>\$ 5,845,589</u></u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fontana Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant 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. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Fontana Unified School District Public Financing Authority (the Authority) financial activity is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Authority are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority.

The Fontana Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF 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 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, 2015

NOTE 1 – SUMMARY OF 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, 2015

NOTE 1 – SUMMARY OF 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. 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.

3. Revenues - Exchange and Non-Exchange Transactions

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Revenues - Exchange and Non-Exchange Transactions (continued)

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

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.

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, Deferred Inflows of Resources, 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Capital Assets (continued)

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

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

4. Unearned Revenue

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

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

5. 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 three items that qualify for reporting in this category. The first item is to recognize contributions made to the pension plan after the measurement date of the net pension liability. The second item is to recognize the deferred amount due to differences in proportions related to pensions. The third 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.

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 one item that is reported as deferred inflows of resources. That item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

6. 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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

8. 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.

9. 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position (continued)

- **Net investment in capital assets (continued)** - 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
- **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. 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.
from those estimates.

G. 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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

I. New GASB Pronouncements

During the 2014-15 fiscal year, the following GASB Pronouncements became effective:

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

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

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

Cost-Sharing Employers

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68 (Issued 11/13)*

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net position liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

3. Cumulative Effect of Change in Accounting Principle

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards was to decrease the net position at July 1, 2013, by \$284,669,037, which is the amount of net pension liability, net of the deferred outflows of resources related to pensions at July 1, 2014.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2015, are reported at fair value and consisted of the following:

	Rating	Governmental Activities		Total	Fiduciary Funds
		Governmental Funds	Proprietary Fund		
Pooled Funds:					
Cash in County Treasury		\$ 191,069,837	\$ 5,579,562	\$ 196,649,399	\$ 1
Deposits:					
Cash on hand and in banks		789,986	-	789,986	1,444,442
Cash in revolving fund		84,970	150,000	234,970	-
Total Deposits		874,956	150,000	1,024,956	1,444,442
Total Cash		\$ 191,944,793	\$ 5,729,562	\$ 197,674,355	\$ 1,444,443
Investments:					
US Bank Money Market	A-1+	\$ 27,501,530	\$ -	\$ 27,501,530	\$ -
Benefit-Trust:					
Fixed Income:					
BlackRock Total Return I					931,367
BlackRock Strategic Income Opportunities					466,006
Delaware Diversified Income					932,710
Hartford World Bond I					464,360
Legg Mason BW Global Opportunities Bond					461,705
Leff mason BW Alternative Credit					345,298
Prudential Total Return Bond Q					1,042,880
Templeton Global Bond Fund					691,529
Western Asset Core Plus Bond I					1,038,210
Equities:					
Alger Spectra Z					548,150
Columbia Contrarian Core Y					446,920
Oakmark Select FD CL I					436,095
Brandes Institutional International Equity I					421,136
Vanguard Mid Cap Index Fund Institutional					320,223
Hartford International Value I					324,178
Cohen & Steers Real Estate Securities I					262,624
Prudential Global Real Estate Q					316,021
Thornburg Investment Income Builder I					318,106
American Funds New Perspective					223,506
Brandes International Small Cap Equity I					215,756
Clearbridge International Small Cap I					223,987
Royce Special Equity Institutional					217,716
Brandes Emerging Markets I					154,234
Hartford Midcap Y					218,499
American Funds New World F2					163,661
Total Investments					\$ 11,184,877

Investment security ratings reported as of June 30, 2015, are defined by Standard and Poors.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

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, 2015, 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, 2015, \$2,007,241 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, 2015***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2015, consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 27,501,530	\$ 27,501,530	\$ -
Benefit-Trust:			
Fixed Income:			
BlackRock Total Return I	931,367	931,367	-
BlackRock Strategic Income Opportunities	466,006	466,006	-
Delaware Diversified Income	932,710	932,710	-
Hartford World Bond I	464,360	464,360	-
Legg Mason BW Global Opportunities Bond	461,705	461,705	-
Leff mason BW Alternative Credit	345,298	345,298	-
Prudential Total Return Bond Q	1,042,880	1,042,880	-
Templeton Global Bond Fund	691,529	691,529	-
Western Asset Core Plus Bond I	1,038,210	1,038,210	-
Equities:			
Alger Spectra Z	548,150	548,150	-
Columbia Contrarian Core Y	446,920	446,920	-
Oakmark Select FD CL I	436,095	436,095	-
Brandes Institutional International Equity I	421,136	421,136	-
Vanguard Mid Cap Index Fund Institutional	320,223	320,223	-
Hartford International Value I	324,178	324,178	-
Cohen & Steers Real Estate Securities I	262,624	262,624	-
Prudential Global Real Estate Q	316,021	316,021	-
Thornburg Investment Income Builder I	318,106	318,106	-
American Funds New Perspective	223,506	223,506	-
Brandes International Small Cap Equity I	215,756	215,756	-
Clearbridge International Small Cap I	223,987	223,987	-
Royce Special Equity Institutional	217,716	217,716	-
Brandes Emerging Markets I	154,234	154,234	-
Hartford Midcap Y	218,499	218,499	-
American Funds New World F2	163,661	163,661	-
Total	\$ 38,686,407	\$ 38,686,407	\$ -

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, 2015, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2015, the District had the following investment that represented more than five percent of the District's net investments.

US Bank Money Market 71.1%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015, 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	\$ 6,030,510	\$ 4,359,309	\$ -	\$ 314,076	\$ 10,703,895	\$ -
State Government:						
Education Protection Account	4,538				4,538	
Lottery	3,510,010	-	-	-	3,510,010	-
Special education	886,258	345,147	-	938,495	2,169,900	-
Categorical aid programs	194,659	-	-	-	194,659	-
Local:						
Interest	10,476	9,770	10,033	23,421	53,700	6,092
Trust reimbursement	5,339,289	-	-	-	5,339,289	-
Miscellaneous	-	-	-	19,101	19,101	-
Other local resources	1,618,963	2,346	-	2,799	1,624,108	-
Total	\$ 17,594,703	\$ 4,716,572	\$ 10,033	\$ 1,297,892	\$ 23,619,200	\$ 6,092

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2015, consisted of the following:

	Due From Other Funds				Total
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 3,844	\$ 951,689	\$ 2,646,244	\$ 3,601,777
Cafeteria Fund	2,902,875	-	8	79,468	2,982,351
Non-Major Governmental Funds	659,747	1,229	300,000	61,660	1,022,636
Self Insurance Fund	54,471	3,679	3,988	-	62,138
Total	\$ 3,617,093	\$ 8,752	\$ 1,255,685	\$ 2,787,372	\$ 7,668,902

Cafeteria Fund due to General Fund for vehicle repairs, fuel costs, year-end suspense transfers, PERS reduction, and indirect costs	2,902,875
General Fund due to Self Insurance Fund for premiums	2,646,244
General Fund due to Special Reserve Fund for Capital Outlay Projects for RDA funds distribution	951,561
Child Development Fund due to General Fund for year-end suspense transfers, indirect costs, and 4th quarter indirect costs	387,752
All other interfund receivables/payables	780,470
Total	\$ 7,668,902

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2015, consisted of the following:

General Fund to Cafeteria Fund for reimbursement of disallowed costs in prior year \$ 206,521

NOTE 5 - FUND BALANCES

At June 30, 2015, 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	928	132,959	-	-	133,887
Prepaid expenditures	244,054	-	-	138	244,192
Total Nonspendable	<u>319,982</u>	<u>142,929</u>	<u>-</u>	<u>138</u>	<u>463,049</u>
Restricted:					
Categorical programs	13,949,374	-	-	241,443	14,190,817
Food service program	-	14,817,099	-	-	14,817,099
Capital projects	-	-	38,421,298	41,160,225	79,581,523
Debt service	-	-	-	21,259,290	21,259,290
Total Restricted	<u>13,949,374</u>	<u>14,817,099</u>	<u>38,421,298</u>	<u>62,660,958</u>	<u>129,848,729</u>
Committed:					
Adult education program	-	-	-	200,348	200,348
Deferred maintenance program	-	-	-	1,489,181	1,489,181
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,689,529</u>	<u>1,689,529</u>
Assigned:					
Other assignments	17,664,066	-	-	60,312	17,724,378
Total Assigned	<u>17,664,066</u>	<u>-</u>	<u>-</u>	<u>60,312</u>	<u>17,724,378</u>
Unassigned:					
Reserve for economic uncertainties	14,077,605	-	-	-	14,077,605
Remaining unassigned balances	41,509,208	-	-	-	41,509,208
Total Unassigned	<u>55,586,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,586,813</u>
Total	<u>\$ 87,520,235</u>	<u>\$ 14,960,028</u>	<u>\$ 38,421,298</u>	<u>\$ 64,410,937</u>	<u>\$ 205,312,498</u>

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2015

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance, July 1, 2014	Additions	Retirements	Balance, June 30, 2015
Capital assets not being depreciated:				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	12,558,677	6,872,600	-	19,431,277
Total capital assets not being depreciated	<u>71,435,979</u>	<u>6,872,600</u>	<u>-</u>	<u>78,308,579</u>
Capital assets being depreciated:				
Improvement of sites	68,715,169	378,163	-	69,093,332
Buildings	623,538,696	1,220,280	-	624,758,976
Equipment	45,623,643	3,140,073	33,426	48,730,290
Total capital assets being depreciated	<u>737,877,508</u>	<u>4,738,516</u>	<u>33,426</u>	<u>742,582,598</u>
Accumulated depreciation for:				
Improvement of sites	(33,032,926)	(3,691,624)	-	(36,724,550)
Buildings	(178,186,823)	(15,478,263)	-	(193,665,086)
Equipment	(33,350,732)	(4,066,848)	(33,426)	(37,384,154)
Total accumulated depreciation	<u>(244,570,481)</u>	<u>(23,236,735)</u>	<u>(33,426)</u>	<u>(267,773,790)</u>
Total capital assets being depreciated, net	<u>493,307,027</u>	<u>(18,498,219)</u>	<u>-</u>	<u>474,808,808</u>
Governmental activity capital assets, net	<u>\$ 564,743,006</u>	<u>\$ (11,625,619)</u>	<u>\$ -</u>	<u>\$ 553,117,387</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	Balance, July 1, 2014 *	Additions	Deductions	Balance, June 30, 2015	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 221,589,935	\$ -	\$ 5,217,517	\$ 216,372,418	\$ 8,457,184
Accreted interest component	16,040,616	4,710,162	3,132,483	17,618,295	1,752,816
Unamortized issuance premium	15,957,916	-	919,548	15,038,368	919,548
Total - Bonds	<u>253,588,467</u>	<u>4,710,162</u>	<u>9,269,548</u>	<u>249,029,081</u>	<u>11,129,548</u>
Certificates of Participation:					
Principal repayments	42,380,000	-	1,365,000	41,015,000	1,435,000
Unamortized issuance premium	526,366	-	25,065	501,301	25,065
Total - Certificates of Participation	<u>42,906,366</u>	<u>-</u>	<u>1,390,065</u>	<u>41,516,301</u>	<u>1,460,065</u>
Qualified Zone Academy Bond					
Scheduled deposits	1,733,394	-	247,628	1,485,766	247,628
Accumulated interest	748,759	-	76,079	672,680	85,877
Total - Qualified Zone Academy Bond	<u>2,482,153</u>	<u>-</u>	<u>323,707</u>	<u>2,158,446</u>	<u>333,505</u>
Compensated Absences	1,949,739	33,963	-	1,983,702	-
Supplemental Early Retirement	920,426	-	920,426	-	-
Other Postemployment Benefits	43,435,385	6,008,494	-	49,443,879	-
Net Pension Liability	302,173,666	-	58,655,767	243,517,899	-
Totals	<u>\$ 647,456,202</u>	<u>\$ 10,752,619</u>	<u>\$ 70,559,513</u>	<u>\$ 587,649,308</u>	<u>\$ 12,923,118</u>

* Beginning balance was restated to reflect the retroactive implementation of GASB Statement No. 68 for the net pension liability.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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

A. General Obligation Bonds

Election of 2006

On June 6, 2006, an election was held where the registered voters in the District approved by a fifty-five percent majority the issuance and sale of \$275 million principal amount of general obligation bonds. The bonds are being issued to acquire, construct, renovate and equip certain District facilities. As of June 30, 2015, 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, 2015, 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, 2015 of \$4,179,855 remain to be amortized. As of June 30, 2015, the principal balance outstanding on the defeased debt has been fully paid.

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, 2015

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, 2015, of \$8,851 remain to be amortized. As of June 30, 2015, the principal balance outstanding on the defeased debt has been fully paid.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
Refunding Bonds								
1992R	8/1/1992	2018	2.9%-5.4%	\$ 23,668,126	\$ 445,805	\$ -	\$ 445,805	\$ -
1997R	6/18/1997	2018	4.40%-5.95%	18,670,227	3,088,781	-	701,712	2,387,069
2009R	2/11/2009	2022	3.0% - 5.25%	18,110,000	12,735,000	-	1,235,000	11,500,000
2012R	10/25/2012	2031	2.0%-5.0%	78,115,000	76,015,000	-	1,035,000	74,980,000
2014R	5/22/2014	2031	2.25%-5.0%	12,975,000	12,975,000	-	-	12,975,000
				Subtotal Refunding Bonds	105,259,586	-	3,417,517	101,842,069
2006 Series								
2006A	8/10/2006	2031	4.0%-5.25%	90,000,000	725,000	-	725,000	-
2006B	3/11/2008	2033	3.0% - 5.25%	70,585,909	68,345,909	-	1,075,000	67,270,909
2006C	10/25/2012	2044	5.0%-5.75%	47,259,440	47,259,440	-	-	47,259,440
				Subtotal 2006 Series	116,330,349	-	1,800,000	114,530,349
				Total	\$ 221,589,935	\$ -	\$ 5,217,517	\$ 216,372,418
Accreted Interest								
				1992R	\$ 1,319,404	\$ 114,791	\$ 1,434,195	\$ -
				1997R	6,343,107	633,985	1,698,288	5,278,804
				2006B	4,988,600	1,082,151	-	6,070,751
				2006C	3,389,505	2,879,235	-	6,268,740
					<u>\$ 16,040,616</u>	<u>\$ 4,710,162</u>	<u>\$ 3,132,483</u>	<u>\$ 17,618,295</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015***NOTE 8 - GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds (continued)**

The annual requirements to amortize general obligation bonds outstanding at June 30, 2015, are as follows:

Fiscal Year	Principal	Interest	Total
2015-16	\$ 8,457,184	\$ 8,822,460	\$ 17,279,644
2016-17	7,576,175	8,662,525	16,238,700
2017-18	8,331,800	8,430,044	16,761,844
2018-19	9,226,910	8,182,309	17,409,219
2019-20	9,740,000	5,682,344	15,422,344
2020-25	49,115,000	21,833,019	70,948,019
2025-30	67,975,305	14,149,835	82,125,140
2030-35	19,728,428	56,766,085	76,494,513
2035-40	20,836,158	60,763,842	81,600,000
2040-45	15,385,458	65,714,542	81,100,000
Total	<u>\$ 216,372,418</u>	<u>\$ 259,007,005</u>	<u>\$ 475,379,423</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
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
2019-20	1,800,000	1,570,450	3,370,450
2020-25	10,505,000	6,364,075	16,869,075
2025-30	11,175,000	3,744,338	14,919,338
2030-35	6,655,000	1,797,412	8,452,412
2035-36	4,650,000	104,625	4,754,625
Total	<u>\$ 41,015,000</u>	<u>\$ 20,661,550</u>	<u>\$ 61,676,550</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2015***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:

Fiscal Year	Scheduled Deposit	Accumulated Interest	Total
2015-16	\$ 247,628	\$ 85,877	\$ 333,505
2016-17	247,627	95,956	343,583
2017-18	247,628	106,345	353,973
2018-19	247,627	117,030	364,657
2019-20	247,628	128,054	375,682
2020-21	247,628	139,418	387,046
Total	<u>\$ 1,485,766</u>	<u>\$ 672,680</u>	<u>\$ 2,158,446</u>

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, Riverside Employee/Employer Partnership (REEP), and Statewide Educational Wrap Up Program (SEWUP) 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, 2014, for the JPAs are as follows:

	REEP	ReLiEF	SEWUP
Assets	\$ 30,171,457	\$ 51,710,199	\$ 16,962,655
Liabilities	10,701,715	38,808,629	13,988,830
Net Assets	<u>\$ 19,469,742</u>	<u>\$ 12,901,570</u>	<u>\$ 2,973,825</u>
Revenues	\$ 132,806,932	\$ 17,316,994	\$ 9,269,254
Expenses	131,725,589	26,459,776	10,378,711
Operating Income	1,081,343	(9,142,782)	(1,109,457)
Non-Operating Income	35,158	381,854	224,063
Change in Net Assets	<u>\$ 1,116,501</u>	<u>\$ (8,760,928)</u>	<u>\$ (885,394)</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

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, 2015, the District had commitments with respect to unfinished capital projects of approximately \$24,982,989 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, 2015.

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, 2015, 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 2014-15, 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 11 – RISK MANAGEMENT (continued)

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, 2013 to June 30, 2015:

	Workers' Compensation
Liability Balance, July 1, 2013	\$ 5,219,728
Claims and changes in estimates	930,776
Claims payments	<u>(1,162,227)</u>
Liability Balance, June 30, 2014	4,988,277
Claims and changes in estimates	2,838,719
Claims payments	<u>(2,285,840)</u>
Liability Balance, June 30, 2015	<u>\$ 5,541,156</u>
Assets available to pay claims at June 30, 2015	<u>\$ 8,523,026</u>

NOTE 12 – PENSION 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 California State Teachers' Retirement System (CalSTRS), and classified employees are members of California Public Employees' Retirement System (CalPERS).

A. General Information about the Pension Plans

Plan Descriptions

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. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also 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. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4 percent at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2 percent simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2 percent increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1 percent of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0 percent at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

Contributions

Active CalSTRS plan members were required to contribute 8.15% of their salary in 2014-15. The required employer contribution rate for fiscal year 2014-15 was 8.88% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

Contributions (continued)

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2014-15 was 11.771%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Employer contributions	\$ 23,809,596	\$ 6,799,457
Employee contributions paid by employer	\$ -	\$ -

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
CalSTRS	\$ 184,076,550
CalPERS	\$ 59,441,349
Total Net Pension Liability	<u>\$ 243,517,899</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>CalSTRS*</u>	<u>CalPERS</u>
Proportion - June 30, 2013	0.3150%	0.4994%
Proportion - June 30, 2014	0.3150%	0.5236%
Change - Increase (Decrease)	<u>0.0000%</u>	<u>0.0242%</u>

* The District's proportionate share percentage was not separately determined for June 30, 2013, so the June 30, 2014 percentage was used to calculate the beginning amounts.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the District recognized pension expense of \$21,174,872. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 30,609,053	\$ -
Adjustment due to differences in proportions	3,437,391	-
Net differences between projected and actual earnings on plan investments	-	(65,753,213)
	<u>\$ 34,046,444</u>	<u>\$ (65,753,213)</u>

The total amount of \$30,609,053 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (13,312,531)
2017	(13,312,531)
2018	(13,312,531)
2019	-
2020	-
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.50%
Inflation	3.00%	2.75%
Wage Growth	3.75%	3.00%
Post-retirement Benefit Increase	2.00%	-
Investment Rate of Return	7.60%	7.50%

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions (continued)–

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – for CalPERS

The discount rate used to measure the total pension liability was 7.50% for CalPERS. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate – for CalPERS (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	47%	4.5%	5.7%
Global Fixed Income	N/A	19%	N/A	2.4%
Inflation Sensitive	5%	6%	3.2%	3.4%
Private Equity	12%	12%	6.2%	7.0%
Real Estate	15%	11%	4.4%	5.1%
Infrastructure and Forestland	N/A	3%	N/A	5.1%
Fixed Income	20%	N/A	0.2%	N/A
Liquidity	1%	2%	0.0%	-1.1%
	<u>100%</u>	<u>100%</u>		

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 12 – PENSION PLANS (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.50%
Net Pension Liability	\$ 286,927,200	\$ 104,273,695
Current Discount Rate	7.60%	7.50%
Net Pension Liability	\$ 184,076,550	\$ 59,441,349
1% Increase	8.60%	8.50%
Net Pension Liability	\$ 98,317,800	\$ 21,979,404

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

C. Payable to the Pension Plans

At June 30, 2015, the District reported a payable of \$1,304,610 and \$38,367 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2015.

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.

A. Summary of Significant Accounting Policies

Basis of Accounting

The Retiree Benefit Fund’s financial statements are prepared using the accrual basis of accounting. Fontana Unified School District has a retirement board of authority to oversee the Retiree Benefit Fund. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

A. Summary of Significant Accounting Policies (continued)

Method Used to Value Investments

Investments are reported at fair value. The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting financial statements at amounts based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The District also has an investment of \$11,184,877 in Blue Ridge Trust Bank as described in Note 2.

B. Plan Descriptions and Contribution Information

Membership of the plan consisted of the following at April 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	565
Active plan members	3,500
Total	<u>4,065</u>

Number of participating employers One

Plan Description

Following is a description of the current retiree plan:

	<u>Certificated</u>	<u>Classified and Police</u>	<u>Management</u>
Benefit types provided	Medical, dental and vision*	Medical, dental and vision*	Medical, dental and vision*
Duration of benefits	6 years*	6 years*	6 years*
Required service	15 years*	15 years*	15 years*
Minimum age	50	50	50
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	None	None	None

* Retirees may elect 8 years of medical only coverage. Employees with at least 35 years of service receive lifetime coverage. Married employees may elect to receive benefits consecutively subject to certain restrictions. Certain retirees may defer receipt of retiree benefits subject to certain restrictions.

Contributions

Retired plan members and beneficiaries currently receiving benefits are not required to contribute toward the cost of health insurance premiums. The District contributes 100% of the current premium cost, which amounted to approximately \$7.4 million in 2014-15.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Plan Descriptions and Contribution Information (continued)

Contributions (continued)

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	2,171,770
Adjustment to ARC	<u>(1,923,888)</u>
Annual OPEB cost	<u>13,383,494</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	(7,375,000)
Pay-as-you-go costs	<u>-</u>
Total contributions made	<u>(7,375,000)</u>
Increase in net OPEB liability	6,008,494
Net OPEB liability - July 1, 2014	<u>43,435,385</u>
Net OPEB liability - June 30, 2015	<u>\$ 49,443,879</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.

C. Funded Status and Funding Progress – OPEB Plans

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 2014-15 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Liability
2013	\$ 11,437,470	46%	\$ 35,298,329
2014	\$ 13,337,056	39%	\$ 43,435,385
2015	\$ 13,383,494	55%	\$ 49,443,879

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

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%

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Required Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 298,661,286	\$ 302,549,600	\$ 304,478,927	\$ 1,929,327
Federal sources	21,552,960	28,052,372	22,478,789	(5,573,583)
Other state sources	35,224,733	38,349,084	49,746,535	11,397,451
Other local sources	3,002,662	4,571,361	6,065,054	1,493,693
Total Revenues	358,441,641	373,522,417	382,769,305	9,246,888
Expenditures				
Current:				
Certificated salaries	159,409,106	169,270,643	168,695,885	574,758
Classified salaries	48,981,004	51,029,913	51,355,783	(325,870)
Employee benefits	82,914,471	80,687,347	89,141,819	(8,454,472)
Books and supplies	30,465,178	41,093,138	20,485,901	20,607,237
Services and other operating expenditures	31,023,577	40,059,559	34,266,559	5,793,000
Transfers of indirect costs	(1,176,035)	(969,845)	(856,184)	(113,661)
Capital outlay	322,807	4,935,020	1,791,012	3,144,008
Intergovernmental	-	160,821	206,521	(45,700)
Total Expenditures	351,940,108	386,266,596	365,087,296	21,179,300
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,501,533	(12,744,179)	17,682,009	30,426,188
Fund Balances, July 1, 2014	58,080,045	58,080,045	58,080,045	-
Fund Balances, June 30, 2015	\$ 64,581,578	\$ 45,335,866	\$ 75,762,054	\$ 30,426,188

* 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.

On behalf payments of \$8,857,723 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Cafeteria Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Federal sources	\$ 17,986,057	\$ 18,152,052	\$ 19,174,309	\$ 1,022,257
Other state sources	1,462,783	1,463,960	1,473,925	9,965
Other local sources	2,008,215	2,118,215	1,881,345	(236,870)
Total Revenues	21,457,055	21,734,227	22,529,579	795,352
Expenditures				
Current:				
Classified Salaries	6,375,633	6,529,096	6,532,077	(2,981)
Employee Benefits	3,704,470	3,112,102	3,117,790	(5,688)
Books and Supplies	9,494,817	11,940,915	11,959,246	(18,331)
Services and Other Operating Expenditures	353,300	14,147,739	677,105	13,470,634
Transfers of indirect costs	878,835	879,700	928,349	(48,649)
Capital Outlay	650,000	904,500	495,670	408,830
Total Expenditures	21,457,055	37,514,052	23,710,237	13,803,815
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(15,779,825)	(1,180,658)	14,599,167
Other Financing Sources and Uses				
Interfund Transfers In	-	160,821	206,521	45,700
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(15,619,004)	(974,137)	14,644,867
Fund Balances, July 1, 2014	15,934,165	15,934,165	15,934,165	-
Fund Balances, June 30, 2015	\$ 15,934,165	\$ 315,161	\$ 14,960,028	\$ 14,644,867

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2015

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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*Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2015*

Last Ten Fiscal Years*

	<u>2014</u>
District's proportion of the net pension liability (asset):	
CalSTRS	0.3150%
CalPERS	0.5236%
District's proportionate share of the net pension liability (asset):	
CalSTRS	\$ 184,076,550
CalPERS	\$ 59,441,349
District's covered-employee payroll:	
CalSTRS	\$ 156,232,242
CalPERS	\$ 53,355,454
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:	
CalSTRS	117.8%
CalPERS	111.4%
Plan fiduciary net position as a percentage of the total pension liability:	
CalSTRS	76.5%
CalPERS	83.4%

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2015

Last Ten Fiscal Years*

	<u>2014</u>
Actuarially determined contribution:	
CalSTRS	\$ 12,889,160
CalPERS	\$ 6,104,931
Contributions in relation to the actuarially determined contribution:	
CalSTRS	\$ 12,889,160
CalPERS	<u>\$ 6,104,931</u>
Contribution deficiency (excess):	
CalSTRS	<u>\$ -</u>
CalPERS	<u>\$ -</u>
District's covered-employee payroll:	
CalSTRS	\$ 156,232,242
CalPERS	\$ 53,355,454
Contributions as a percentage of covered-employee payroll:	
CalSTRS	8.25%
CalPERS	11.442%

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2015

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.

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ration of the actual contributions divided by covered-employee payroll.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2015

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2015, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 325,870
Employee benefits	8,454,472
Transfers of indirect costs	113,661
Intergovernmental	45,700
Cafeteria Fund:	
Classified salaries	2,981
Employee benefits	5,688
Books and Supplies	18,331
Transfers of indirect costs	48,649

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Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2015

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
BarBara L. Chavez	President	2016
Lorena Corona	Vice-President / Clerk	2016
Jesse Armendarez	Member	2018
Mary Sandoval	Member	2018
Matt Slowik, MVRP, MPA	Member	2018

DISTRICT ADMINISTRATORS

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

Randal Bassett,
Associate Superintendent, Business Services

Oscar Dueñas,
Associate Superintendent, Student Services

David Creswell,
Associate Superintendent, Human Resources

Antonio J. Cediell, Ed.D.,
Associate Superintendent, Teaching & Learning

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2015

	Second Period Report	Annual Report
	Certificate No. (27F91899)	Certificate No. (77EE2A2D)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	11,791.61	11,752.50
Fourth through Sixth	8,623.56	8,592.42
Seventh through Eighth	5,438.54	5,417.63
Ninth through Twelfth	12,212.14	12,109.29
Total Regular ADA	<u>38,065.85</u>	<u>37,871.84</u>
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	0.85	1.07
Fourth through Sixth	8.52	8.81
Seventh through Eighth	7.10	7.18
Ninth through Twelfth	24.13	24.67
Total Special Education, Nonpublic, Nonsectarian Schools	<u>40.60</u>	<u>41.73</u>
Total ADA	<u>38,106.45</u>	<u>37,913.57</u>

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2015

Grade Level	1986-87 Minutes		2014-15 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	57,090	180	Complied
Grade 8	54,000	52,500	57,090	180	Complied
Grade 9	64,800	63,000	65,386	180	Complied
Grade 10	64,800	63,000	65,386	180	Complied
Grade 11	64,800	63,000	65,386	180	Complied
Grade 12	64,800	63,000	65,386	180	Complied

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

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2015

General Fund	(Budget) 2016 ²	2015*	2014	2013
Revenues and other financing sources	\$ 423,378,591	\$ 374,049,524	\$ 333,797,923	\$ 308,252,107
Expenditures	396,986,695	356,160,993	316,890,714	314,535,174
Other uses and transfers out	-	206,521	11,705,204	1,397
Total outgo	<u>396,986,695</u>	<u>356,367,514</u>	<u>328,595,918</u>	<u>314,536,571</u>
Change in fund balance (deficit)	<u>26,391,896</u>	<u>17,682,010</u>	<u>5,202,005</u>	<u>(6,284,464)</u>
Ending fund balance	<u>\$ 102,153,951</u>	<u>\$ 75,762,055</u>	<u>\$ 58,080,045</u>	<u>\$ 52,878,040</u>
Available reserves ¹	<u>\$ 88,143,919</u>	<u>\$ 55,586,813</u>	<u>\$ 33,765,708</u>	<u>\$ 35,840,426</u>
Available reserves as a percentage of total outgo	<u>22.2%</u>	<u>15.6%</u>	<u>10.3%</u>	<u>11.4%</u>
Total long-term debt	<u>\$ 574,726,190</u>	<u>\$ 587,649,308</u>	<u>\$ 345,282,536</u>	<u>\$ 346,862,677</u>
Average daily attendance at P-2	<u>37,492</u>	<u>38,106</u>	<u>38,642</u>	<u>38,975</u>

The General Fund balance has increased overall over the past two years by \$22,884,015. The fiscal year 2015-16 adopted budget projects an increase of \$26,391,896. 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 2015-16 fiscal year. Long-term debt has increased by \$240,786,631 over the past two years.

Average daily attendance has decreased by 869 over the past two years. A decrease of 614 ADA is anticipated during fiscal year 2015-16.

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

² Revised Final Budget August, 2015.

* 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.

On behalf payments of \$8,857,723 are not included in the actual revenues and expenditures.

FONTANA UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2015*

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

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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	\$ 3,170,391	
National School Lunch Program	10.555	13523	14,768,700	
USDA Donated Foods	10.555	N/A	<u>1,235,218</u>	
Total Child Nutrition Cluster				\$ 19,174,309
Total U.S. Department of Agriculture				<u>19,174,309</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	309,973	
Adult Basic Education & ESL	84.002A	14508	101,257	
English Literacy & Civics Education	84.002A	14109	<u>8,230</u>	
Total Adult Education Cluster				419,460
No Child Left Behind (NCLB):				
Title I, Part A Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	10,540,326	
Title I, Part D, Local Delinquent Programs	84.010	14357	<u>6,363</u>	
Total Title I, Part A Cluster				10,546,689
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		145,360
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14344		1,525,638
Title III, Limited English Proficiency	84.365	14346		1,360,920
Carl Perkins Act - Secondary	84.048	14894		384,246
Safe & Supportive Schools, Programmatic Intervention	84.184	15164		233,051
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster				
Local Assistance Entitlement	84.027	13379	6,377,615	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	19,640	
Preschool Grants, Part B, Sec 619	84.173	13430	151,162	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	238,420	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	437,852	
Preschool Staff Development	84.173A	13431	1,307	
Quality Assurance & Focused Monitoring	84.027A	13693	<u>1,037</u>	
Total Special Education Cluster				7,227,033
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		<u>189,351</u>
Total U.S. Department of Education				<u>22,161,633</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care Development Fund Cluster				
Federal Child Care, Center-Based	93.596	13609		590,662
Head Start Cluster				
Head Start	93.600	10016	123,278	
Early Head Start	93.600	10016	<u>261,600</u>	
Total Head Start Cluster				384,878
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013		<u>736,616</u>
Total U.S. Department of Health & Human Services				<u>1,712,156</u>
Total Expenditures of Federal Awards				<u>\$ 43,048,098</u>

FONTANA UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2015

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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of 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.

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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, 2015, and the related notes to the financial statements, which collectively comprise Fontana Unified School District's basic financial statements, and have issued our report thereon dated November 16, 2015.

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

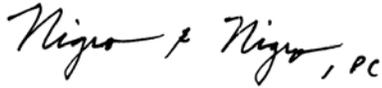
As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-1.

Fontana Unified School District's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
November 16, 2015

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Fontana Unified School District
Fontana, California

Report on State Compliance

We have audited Fontana Unified School District's compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Fontana Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2015.

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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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.

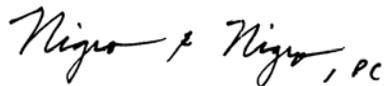
In connection with the audit referred to on the prior page, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupation Centers or Programs Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Unmodified 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, 2015.



Murrieta, California
November 16, 2015

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

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, 2015. 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, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-1. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

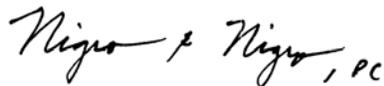
Management of Fontana Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fontana Unified School District's internal 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.

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

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
November 16, 2015

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, 2015

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>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</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>84.027, 84.173</u> <u>Special Education Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,291,443</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

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
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2014-15.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

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 2015-1: 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, 2015, the cash balance in the Cafeteria Fund was \$12,562,695. Three months average expenditures are \$5,618,755. The excess cash reserves are \$6,943,941.

Questioned Costs: None.

Context: None.

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

Cause: The District had an excessive yearly fund balance in the food service account because of increasing revenues and transfers over expenditures. The District has created a multi-year spending plan to get into compliance.

Recommendation: We recommend the District continue following the spending plan submitted to the CDE.

District Response: The California Department of Education approved the District's School Nutrition Program Spending plan on November 4, 2015. 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, 2015

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 2014-15.

FONTANA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2014-1: National School Lunch Program OPEB Cost Allocations</i>	<p>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.</p> <p>The District charged retirees who worked under the Food service program directly to the National School Lunch Program.</p>	50000	We recommend the District allocate retiree OPEB costs across all activities broadly.	Implemented.
<i>Finding 2014-2: National School Lunch Program Cash Reserves</i>	<p>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).</p> <p>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.</p>	50000	We recommend the District submit a spending plan to CDE and obtain approval in spending the excess of allowable funds.	Partially Implemented. See Finding 2015-1.
<i>Finding 2014-3: National School Lunch Program Expenditures</i>	<p>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).</p>	50000	The District should place the proper procedures and policies in place to ensure that expenditures are made in accordance with State and Federal Guidelines.	Implemented.

FONTANA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2014-3: National School Lunch Program Expenditures (continued)</i>	<p>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.</p>			

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, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 16, 2015, on the financial statements of Fontana Unified School District.

DISTRICT OFFICE

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 315 employees that have accrued vacation exceeding this carryover limit. The cost of this excess carryover is estimated to be approximately \$0.4 million as of June 30, 2015.

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

Observation: During our review of disbursements, we noted that some of the payments selected in our sample were not approved prior to incurring the expenditure. Additionally, we noted one disbursement which did not have sufficient supporting documentation.

Recommendation: We recommend that all disbursements be approved prior to receiving goods or services to ensure their necessity by the appropriate level of management before the District is obligated to pay. Additionally, we recommend that all disbursements be supported by complete and sufficient documentation.

ASSOCIATED STUDENT BODY (ASB) FUNDS

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.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: During our tests of cash disbursements, we noted one disbursement at **Almeria Middle** and one disbursement at **Ruble Middle** that was lacking any supporting documentation. Issuing payment for expenditures without proper supporting documentation such as invoices or receipts can create the opportunity for the misappropriation of student funds.

Recommendation: We advise the District to follow-up on the noted exceptions to ensure that the disbursements were for a legitimate transaction. In addition, we recommend that the sites require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

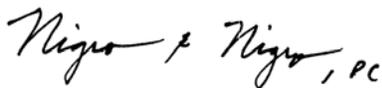
Observation: During our review of disbursements at **Ruble Middle**, we noted that some of the disbursements selected in our sample were not approved by a District representative, the ASB advisor, and a student representative prior to incurring the expense. Education Code Section 48933(b) requires all 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 **Fontana High, Kaiser High, and A.B. Miller High**, we noted that there were accounts named “FUSD”, “District Fees”, and “District Charges”, respectively, which serve as clearing accounts for the District and are not clubs which are operated by students. ASB accounts are not and should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds.

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

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



Murrieta, California
November 16, 2015