

**FONTANA UNIFIED  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2016**



**FONTANA UNIFIED SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2016*

*Table of Contents*

---

**FINANCIAL SECTION**

**Page**

Independent Auditors' Report..... 1  
Management's Discussion and Analysis..... 3  
Basic Financial Statements:  
    Government-wide Financial Statements:  
        Statement of Net Position..... 11  
        Statement of Activities..... 12  
    Governmental Funds Financial Statements:  
        Balance Sheet..... 13  
        Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position ..... 14  
        Statement of Revenues, Expenditures, and Changes in Fund Balances ..... 15  
        Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
            and Changes in Fund Balances to the Statement of Activities ..... 16  
    Proprietary Fund Financial Statements:  
        Statement of Net Position..... 17  
        Statement of Revenues, Expenses, and Changes in Net Position ..... 18  
        Statement of Cash Flows..... 19  
    Fiduciary Funds Financial Statements:  
        Statement of Fiduciary Net Position..... 20  
        Statement of Changes in Fiduciary Net Position ..... 21  
Notes to Financial Statements ..... 22

**REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule – General Fund..... 52  
Budgetary Comparison Schedule – Cafeteria Fund ..... 53  
Schedule of Funding Progress ..... 54  
Schedule of Proportionate Share of the Net Pension Liability ..... 55  
Schedule of Contributions ..... 56  
Notes to the Required Supplementary Information ..... 57

**SUPPLEMENTARY INFORMATION**

Local Educational Agency Organization Structure ..... 59  
Schedule of Average Daily Attendance ..... 60  
Schedule of Instructional Time ..... 61  
Schedule of Financial Trends and Analysis..... 62  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements..... 63  
Schedule of Expenditures of Federal Awards ..... 64  
Note to the Supplementary Information ..... 65

**FONTANA UNIFIED SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2016*

*Table of Contents*

---

**OTHER INDEPENDENT AUDITORS' REPORTS**

**Page**

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*.....66

Independent Auditors' Report on State Compliance .....68

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance .....70

**FINDINGS AND QUESTIONED COSTS**

Schedule of Audit Findings and Questioned Costs:

    Summary of Auditors' Results .....72

    Current Year Audit Findings and Questioned Costs .....73

    Summary Schedule of Prior Audit Findings .....76

Management Letter .....77

---

---

***Financial Section***

---

---

*(This page intentionally left blank)*

## 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, 2016, 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 *2015-16 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

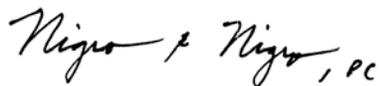
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on pages 52 and 53, schedule of funding progress on page 54, schedule of proportionate share of the net pension liability on page 55, and schedule of contributions on page 56 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 60 to 63 and the schedule of expenditures of federal awards on page 64 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 59 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 18, 2016 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 18, 2016



**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

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

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

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

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

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

**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, 2016*

---

**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, 2016, than it was the year before – increasing 21.3% to \$172.9 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015</b>	
Current assets	\$ 297.7	\$ 249.2	\$ 48.5
Capital assets	562.4	553.1	9.3
<b>Total assets</b>	<b>860.1</b>	<b>802.3</b>	<b>57.8</b>
<b>Total deferred outflows</b>	<b>82.3</b>	<b>38.2</b>	<b>44.1</b>
Current liabilities	68.1	44.6	23.5
Long-term liabilities	658.7	587.6	71.1
<b>Total liabilities</b>	<b>726.8</b>	<b>632.2</b>	<b>94.6</b>
<b>Total deferred inflows</b>	<b>42.7</b>	<b>65.8</b>	<b>(23.1)</b>
Net position			
Net investment in capital assets	330.1	316.5	13.6
Restricted	86.3	91.4	(5.1)
Unrestricted	(243.5)	(265.4)	21.9
<b>Total net position</b>	<b>\$ 172.9</b>	<b>\$ 142.5</b>	<b>\$ 30.4</b>

**Changes in net position, governmental activities.** The District's total revenues increased 20% to \$531.6 million (See Table A-2). The increase is due primarily to federal and state funding.

The total cost of all programs and services increased 16.7% to \$501.2 million. The District's expenses are predominantly related to educating and caring for students, 78.5%. The purely administrative activities of the District accounted for just 4.4% of total costs. A significant contributor to the increase in costs was instructional and pupil support services.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

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

**Table A-2**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015</b>	
Total Revenues	\$ 531.6	\$ 443.0	\$ 88.6
Total Expenses	501.2	429.3	71.9
Increase (decrease) in net position	<u>\$ 30.4</u>	<u>\$ 13.7</u>	<u>\$ 16.7</u>

**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 \$229.1 million, which is above last year's ending fund balance of \$205.3 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 \$49.2 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$52.9 million due to negotiated salary increases.
- Other non-personnel expenses – increased \$57 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about \$34.3 million, the actual results for the year show that revenues exceeded expenditures by roughly \$47.2 million. Actual revenues were \$8.3 million less than anticipated, but expenditures were \$89.7 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2016, that will be carried over into the 2016-17 budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2015-16 the District had invested \$31.2 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 \$21.9 million.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

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

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2016	2015	
Land	\$ 58.9	\$ 58.9	\$ (0.0)
Improvement of sites	30.2	32.4	(2.2)
Buildings	417.9	431.1	(13.2)
Equipment	18.7	11.3	7.4
Construction in progress	36.7	19.4	17.3
Total	<u>\$ 562.4</u>	<u>\$ 553.1</u>	<u>\$ 9.3</u>

**Long-Term Debt**

At year-end the District had \$658.7 million in general obligation bonds, certificates of participation, QZABs, net pension liability, and employment benefits – an increase of 12.1% 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)
	2016	2015	
General obligation bonds	\$ 245.4	\$ 249.0	\$ (3.6)
Certificates of participation	35.0	41.5	(6.5)
QZABs	1.8	2.2	(0.4)
Compensated absences	2.1	2.0	0.1
Other postemployment benefits	58.6	49.4	9.2
Net pension liability	315.8	243.5	72.3
Total	<u>\$ 658.7</u>	<u>\$ 587.6</u>	<u>\$ 71.1</u>

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

**Evolution of the Budget**

The Legislature passed the final budget package on June 15, 2016. Total reserves in the final budget package were lower by only \$36 million compared to the Governor's proposal in May. Various choices were made to shift spending priorities compared to the Governor's proposal. Budget savings resulted from (1) reduced spending on state office buildings, (2) shifting funding for the construction of local jails from General Fund to bond funds, and (3) reduced retiree health spending due to lower than expected healthcare costs. Correspondingly, the final budget deal reflected higher spending for affordable housing programs, repealing the MFG policy, and various public safety programs.

The Governor signed the *2016-17 Budget Act* and 14 budget-related bills on June 27, 2016 and July 1, 2016. The Governor did not veto any appropriations.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

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

**Proposition 98**

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. Below, we provide an overview of Proposition 98 funding and spending changes under the enacted budget package. We then highlight Proposition 98 spending changes specifically for K-12 education.

**Minimum Guarantee**

***Proposition 98 Funding Revised Upward Across Three-Year Period***

Proposition 98 establishes a minimum funding requirement commonly called the minimum guarantee. Compared with the estimates from June 2015, the 2014-15 and 2015-16 guarantees have increased by \$843 million and \$641 million, respectively. These upward revisions are due primarily to increases in state revenue relative to the amounts assumed in last year's budget package. The estimate of the 2016-17 minimum guarantee is \$3.5 billion (5.1 percent) higher than the 2015-16 *Budget Act* level.

***Two Key Drivers of Increase in 2016-17***

Total funding for all segments in 2016-17 is \$71.9 billion, a \$2.8 billion (4.1 percent) increase above the revised 2015-16 level. This change in the guarantee reflects 3.6 percent growth in the "Test 3 factor" combined with a supplemental appropriation of \$502 million. The Test 3 factor consists of 3.1 percent growth in per capita General Fund plus an additional 0.5 percent increase set forth in the State Constitution. The supplemental appropriation ensures that the minimum guarantee grows at least as quickly as the rest of the state budget.

***Increase Covered About Evenly From Higher State General Fund and Local Property Tax Revenue***

Of total Proposition 98 funding in 2016-17, \$51.1 billion is state General Fund and \$20.8 billion is local property tax revenue. From 2015-16 to 2016-17, state General Fund increases by \$1.3 billion (accounting for slightly less than half of the \$2.8 billion increase in the guarantee) and local property tax revenue increases by \$1.5 billion (accounting for slightly more than half of the increase in the guarantee). The primary factor explaining the growth in property tax revenue is the strong 6.2 percent increase in assessed property values. In addition, the budget plan assumes property tax revenue increases by \$419 million due to the triple flip ending, thereby completing the shift of revenue from cities, counties, and special districts to school districts and community colleges.

***New Maintenance Factor Created in 2016-17***

In 2014-15, General Fund tax revenue increased by 11 percent over the prior-year level, resulting in a maintenance factor payment of \$5.7 billion—the largest payment the state has ever made. In 2015-16, the budget assumes the state makes an additional maintenance factor payment of \$379 million, reducing the total outstanding obligation to \$155 million. In 2016-17, the budget assumes the state creates \$746 million in new maintenance factor. The amount of new maintenance factor created is based on the difference between the Proposition 98 Test 2 and Test 3 factors. In 2016-17, growth in the Test 2 factor (per capita personal income) is strong (5.4 percent) relative to growth in the Test 3 factor (3.6 percent).

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

---

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

**K-12 Education**

***\$63.3 Billion Proposition 98 Funding for K-12 Education and Preschool Combined***

This 2016-17 level is \$2.5 billion (4.1 percent) more than revised 2015-16 funding and \$3.7 billion (6.3 percent) more than the *2015-16 Budget Act* level. The budget increases funding per student by \$440 (4.3 percent) over the *2015-16 Budget Act* level, bringing Proposition 98 funding per student up to \$10,657.

**New Spending**

***Large Increase for LCFF***

The \$2.9 billion augmentation brings total funding for implementing LCFF for school districts and charter schools up to \$55.8 billion, a 5.7 percent increase over the revised 2015-16 level. The administration estimates this funding will close 54 percent of the gap between current funding levels and LCFF target rates, bringing LCFF to 96 percent of its full implementation cost. School districts and charter schools may use LCFF monies for any educational purpose.

***Significant Discretionary One-Time Funding***

The largest one-time augmentation for K-12 education is \$1.3 billion that LEAs may use for any locally determined purpose. Funding would be distributed based on average daily attendance. If an LEA has unpaid mandate claims, funding would pay all or a portion of those claims. As many LEAs do not have any unpaid claims, we estimate only about half (\$617 million) of the funding provided would reduce the K-12 mandates backlog. We estimate the outstanding K-12 mandates backlog will be \$987 million at the end of 2016-17.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2016-17 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, 2016*

---

	Total Governmental Activities
<b>ASSETS</b>	
Cash	\$ 258,213,494
Investments	14,424,764
Accounts receivable	24,285,737
Inventories	190,251
Prepaid expenses	562,653
Non-depreciable assets	95,584,943
Depreciable assets	755,928,733
Less accumulated depreciation	<u>(289,084,854)</u>
Total assets	<u>860,105,721</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts on refunding	7,448,558
Deferred outflows from pensions	<u>74,817,150</u>
Total deferred outflows of resources	<u>82,265,708</u>
<b>LIABILITIES</b>	
Accounts payable	66,066,609
Unearned revenue	2,042,030
Long-term debt:	
Portion due or payable within one year	14,133,435
Portion due or payable after one year	<u>644,552,680</u>
Total liabilities	<u>726,794,754</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows from pensions	<u>42,670,239</u>
<b>NET POSITION</b>	
Net investment in capital assets	330,088,306
Restricted for:	
Capital projects	32,610,287
Debt service	18,023,852
Educational programs	35,648,515
Unrestricted	<u>(243,464,524)</u>
Total net position	<u>\$ 172,906,436</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2016*

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Instructional Services:					
Instruction	\$ 278,033,781	\$ 504,399	\$ 49,480,453	\$ 74,638	\$ (227,974,291)
Instruction-Related Services:					
Supervision of instruction	28,287,573	126,271	15,275,581	-	(12,885,721)
Instructional library, media and technology	4,798,938	-	(1,051)	-	(4,799,989)
School site administration	25,947,575	67	912,722	-	(25,034,786)
Pupil Support Services:					
Home-to-school transportation	4,211,852	-	-	-	(4,211,852)
Food services	25,866,533	857,627	21,923,150	-	(3,085,756)
All other pupil services	26,279,033	32,681	5,873,416	-	(20,372,936)
General Administration Services:					
Data processing services	9,002,862	-	-	-	(9,002,862)
Other general administration	13,068,505	76,695	8,672,972	-	(4,318,838)
Plant services	46,239,576	836,441	141,833	-	(45,261,302)
Ancillary services	32,677	-	-	-	(32,677)
Community services	971,070	50,154	19,867	-	(901,049)
Enterprise activities	30,588	-	-	-	(30,588)
Interest on long-term debt	14,554,250	-	-	-	(14,554,250)
Other outgo	1,969,287	4,363,121	149,046	-	2,542,880
Depreciation (unallocated)	21,912,778	-	-	-	(21,912,778)
Total Governmental Activities	<u>\$ 501,206,878</u>	<u>\$ 6,847,456</u>	<u>\$ 102,447,989</u>	<u>\$ 74,638</u>	<u>(391,836,795)</u>
<b>General Revenues:</b>					
Property taxes					41,915,766
Federal and state aid not restricted to specific purpose					362,907,322
Interest and investment earnings					777,735
Interagency revenues					943,058
Miscellaneous					15,710,146
Total general revenues					<u>422,254,027</u>
Change in net position					30,417,232
Net position - July 1, 2015					<u>142,489,204</u>
Net position - June 30, 2016					<u>\$ 172,906,436</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2016*

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 169,261,337	\$ 11,213,329	\$ 18,246,881	\$ 53,238,775	\$ 251,960,322
Investments	-	-	14,424,764	-	14,424,764
Accounts receivable	18,312,342	5,085,706	33,289	842,547	24,273,884
Due from other funds	5,230,577	38,916	-	1,948,318	7,217,811
Inventories	-	190,251	-	-	190,251
Prepaid expenditures	562,653	-	-	-	562,653
Total Assets	<u>\$ 193,366,909</u>	<u>\$ 16,528,202</u>	<u>\$ 32,704,934</u>	<u>\$ 56,029,640</u>	<u>\$ 298,629,685</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 52,316,872	\$ 736,556	\$ 3,318,528	\$ 990,438	\$ 57,362,394
Due to other funds	4,841,390	3,359,264	4,148	1,969,869	10,174,671
Unearned revenue	1,499,708	133,231	-	409,091	2,042,030
Total Liabilities	<u>58,657,970</u>	<u>4,229,051</u>	<u>3,322,676</u>	<u>3,369,398</u>	<u>69,579,095</u>
<b>Fund Balances</b>					
Nonspendable	637,653	200,221	-	-	837,874
Restricted	22,475,001	12,098,930	29,382,258	51,508,502	115,464,691
Committed	-	-	-	875,308	875,308
Assigned	61,753,757	-	-	276,432	62,030,189
Unassigned	49,842,528	-	-	-	49,842,528
Total Fund Balances	<u>134,708,939</u>	<u>12,299,151</u>	<u>29,382,258</u>	<u>52,660,242</u>	<u>229,050,590</u>
Total Liabilities and Fund Balances	<u>\$ 193,366,909</u>	<u>\$ 16,528,202</u>	<u>\$ 32,704,934</u>	<u>\$ 56,029,640</u>	<u>\$ 298,629,685</u>

# FONTANA UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2016

---

**Total fund balances - governmental funds** \$ 229,050,590

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:	851,513,676	
Accumulated depreciation:	<u>(289,084,854)</u>	
Net:		562,428,822

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:

7,448,558

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:

(3,043,921)

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	245,356,386	
Net pension liability	315,777,223	
Certificates of participation payable	35,045,449	
QZAB bonds payable	1,824,941	
Compensated absences	2,086,838	
Other postemployment benefits payable	<u>58,595,278</u>	
Total		(658,686,115)

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	74,817,150	
Deferred inflows of resources relating to pensions	<u>(42,670,239)</u>	
Net:		32,146,911

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:

3,561,591

**Total net position - governmental activities** \$ 172,906,436

## FONTANA UNIFIED SCHOOL DISTRICT

### Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2016

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 358,105,341	\$ -	\$ -	\$ 9,600	\$ 358,114,941
Federal sources	24,026,259	21,675,491	-	846,763	46,548,513
Other state sources	75,033,484	1,445,633	-	7,534,094	84,013,211
Other local sources	7,160,494	1,221,063	5,379,086	23,373,671	37,134,314
Total Revenues	464,325,578	24,342,187	5,379,086	31,764,128	525,810,979
<b>EXPENDITURES</b>					
Current:					
Instruction	259,745,842	-	-	6,276,974	266,022,816
Instruction-related services:					
Supervision of instruction	26,715,417	-	-	1,619,427	28,334,844
Instructional library, media and technology	3,737,666	-	-	-	3,737,666
School site administration	24,649,812	-	-	333,370	24,983,182
Pupil support services:					
Home-to-school transportation	4,087,474	-	-	-	4,087,474
Food services	221,175	25,242,968	-	15,254	25,479,397
All other pupil services	25,253,104	-	-	336,523	25,589,627
Ancillary services	32,677	-	-	-	32,677
Community services	955,943	-	-	-	955,943
General administration services:					
Data processing services	8,864,068	-	-	-	8,864,068
Other general administration	13,600,599	-	-	-	13,600,599
Plant services	43,883,072	33,508	282,752	1,239,515	45,438,847
Transfers of indirect costs	(1,534,140)	1,158,998	-	375,142	-
Intergovernmental	676,617	-	-	-	676,617
Capital outlay	6,214,362	599,985	3,468,413	13,957,267	24,240,027
Debt service:					
Issuance costs	-	-	555,688	736,754	1,292,442
Principal	-	-	1,435,000	9,121,627	10,556,627
Interest	-	-	1,870,818	10,240,515	12,111,333
Total Expenditures	417,103,688	27,035,459	7,612,671	44,252,368	496,004,186
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,221,890	(2,693,272)	(2,233,585)	(12,488,240)	29,806,793
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	-	32,395	-	791	33,186
Interfund transfers out	(33,186)	-	-	-	(33,186)
Premiums on debt issuance	-	-	3,960,745	7,598,173	11,558,918
Proceeds from refunding bonds	-	-	-	49,910,000	49,910,000
Proceeds from issuance of COPS	-	-	27,945,000	-	27,945,000
Payment to escrow agent for defeased debt	-	-	(38,711,200)	(56,771,419)	(95,482,619)
Total Other Financing Sources and Uses	(33,186)	32,395	(6,805,455)	737,545	(6,068,701)
Net Change in Fund Balances	47,188,704	(2,660,877)	(9,039,040)	(11,750,695)	23,738,092
Fund Balances, July 1, 2015	87,520,235	14,960,028	38,421,298	64,410,937	205,312,498
Fund Balances, June 30, 2016	\$ 134,708,939	\$ 12,299,151	\$ 29,382,258	\$ 52,660,242	\$ 229,050,590

# 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, 2016

---

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

Amounts reported for governmental <i>activities</i> in the statement of activities are different because:	\$ 23,738,092
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	24,262,662
Depreciation expense	<u>(21,912,778)</u>
Net:	2,349,884
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:	6,974,401
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(12,850)
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:	97,680,689
In governmental funds, proceeds from debt issuances are reported as other financing sources. In the government-wide statements, proceeds from debt issuances are reported as a liability. Proceeds from bond and other issuances plus premiums for the year were:	(89,413,918)
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. Deferred amounts on refunding exceeded the amount amortized during the year by:	3,259,852
In governmental funds, if debt is issued at a premium or at a discount, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was:	5,095,988
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:	(2,885,707)
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:	445,283
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:	(103,136)
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:	(8,405,647)
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:	(9,151,399)
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>845,700</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 30,417,232</u></u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Net Position – Proprietary Fund*  
*June 30, 2016*

---

	<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>	
Cash	\$ 6,253,172
Accounts receivable	11,853
Due from other funds	<u>3,036,801</u>
Total assets	<u>9,301,826</u>
<b>LIABILITIES</b>	
Estimated liability for open claims and IBNRs	5,541,882
Accounts payable	118,412
Due to other funds	<u>79,941</u>
Total liabilities	<u>5,740,235</u>
<b>NET POSITION</b>	
Restricted	<u><u>\$ 3,561,591</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, 2016*

---

	<b>Governmental Activities Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Self-insurance premiums	\$ 3,039,540
Other local revenues	<u>121,224</u>
Total operating revenues	<u>3,160,764</u>
<b>OPERATING EXPENSES</b>	
Payments for personnel costs	306,342
Payments for materials and supplies	1,108
Payments for claims and other operating expenses	<u>2,043,126</u>
Total operating expenses	<u>2,350,576</u>
<b>OPERATING INCOME (LOSS)</b>	810,188
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>35,512</u>
Change in net position	845,700
Net position, July 1, 2015	<u>2,715,891</u>
Net position, June 30, 2016	<u><u>\$ 3,561,591</u></u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Cash Flows – Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2016*

---

	<b>Governmental Activities Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Self-insurance premiums	\$ 3,039,540
Cash received from other local sources	121,224
Other operating transfers	(231,626)
Cash paid for operating expenses	<u>(2,435,279)</u>
Net cash provided by operating activities	493,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>29,751</u>
Net increase in cash	523,610
Cash, July 1, 2015	<u>5,729,562</u>
Cash, June 30, 2016	<u>\$ 6,253,172</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 810,188
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	(249,429)
Decrease in accounts payable and estimated claims liability	(84,703)
Increase in amounts due to other funds	<u>17,803</u>
Net cash provided by operating activities	<u>\$ 493,859</u>

**FONTANA UNIFIED SCHOOL DISTRICT***Statement of Fiduciary Net Position**June 30, 2016*

---

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 1,515,809	\$ 1	\$ 1,515,810
Investments	-	11,333,929	11,333,929
Accounts receivable	15,670	9,831,016	9,846,686
Miscellaneous	2,482	-	2,482
Inventories - supplies and materials	100,401	-	100,401
Scholarship funds	74,306	-	74,306
Total assets	<u>\$ 1,708,668</u>	<u>21,164,946</u>	<u>22,873,614</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 190,052	5,504,192	5,694,244
Due to student groups	1,518,616	-	1,518,616
Total liabilities	<u>\$ 1,708,668</u>	<u>5,504,192</u>	<u>7,212,860</u>
<b>NET POSITION</b>			
Restricted		<u>\$ 15,660,754</u>	<u>\$ 15,660,754</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Changes in Fiduciary Net Position*  
*For the Fiscal Year Ended June 30, 2016*

---

	<b>Trust Fund</b>
	<b>Retiree Benefits Fund</b>
<b>ADDITIONS</b>	
Interest	\$ 586,428
Decrease in fair value of investments	(351,966)
In-district contributions	15,245,373
Total Additions	15,479,835
<b>DEDUCTIONS</b>	
Operating expenses	5,664,670
Change in net position	9,815,165
Net position - July 1, 2015	5,845,589
Net position - June 30, 2016	\$ 15,660,754

## FONTANA UNIFIED SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2016*

---

#### **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. Individually prepared financial statements are not prepared for each of the CFDs.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

---

### 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, 2016

---

## 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 restricted for adult education programs maintained by the District.

**Child Development Fund:** This fund is used to account for resources restricted for 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, 2016

---

### 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, 2016

---

#### 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, 2016*

---

**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 two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second 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, 2016

---

#### 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, 2016

---

#### 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 is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

##### F. 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.

##### 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, 2016

---

### 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 from those estimates.

#### I. New GASB Pronouncements

During the 2015-16 fiscal year, the following GASB Pronouncements became effective:

**1. Statement No. 72, *Fair Value Measurement and Application (Issued 02/15)***

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**2. Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15)***

The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

**3. Statement No. 79, *Certain External Investment Pools and Pool Participants (Issued 12/15)***

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2016

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2016, are reported at fair value and consisted of the following:

	Rating	Governmental Activities			Fiduciary Funds
		Governmental Funds	Proprietary Fund	Total	
<b>Pooled Funds:</b>					
Cash in County Treasury		\$ 251,875,352	\$ 6,103,172	\$ 257,978,524	\$ 1
<b>Deposits:</b>					
Cash on hand and in banks		-	-	-	1,515,809
Cash in revolving fund		84,970	150,000	234,970	-
Restricted cash - Scholarships		-	-	-	74,306
<b>Total Deposits</b>		<b>84,970</b>	<b>150,000</b>	<b>234,970</b>	<b>1,590,115</b>
<b>Total Cash</b>		<b>\$ 251,960,322</b>	<b>\$ 6,253,172</b>	<b>\$ 258,213,494</b>	<b>\$ 1,590,116</b>
<b>Investments:</b>					
US Bank Money Market	A-1+	\$ 14,424,764	\$ -	\$ 14,424,764	\$ -
<b>Benefit-Trust:</b>					
<b>Fixed Income:</b>					
Blackrock Total Return-K					915,287
Blackrock Total Return					1,972
Blackrock Strategic Income Fund					1,104
Blackrock Stratific Income Opps-K					457,824
Geggenheim Investments I					915,287
Hartford World Bond-Y					457,794
Legg Mason BW Global					467,912
Legg Mason BW Alternative Credit					342,480
Prudential Funds Total Return Bond CL Q					1,031,601
Franklin Templeton Mutual FDS					688,422
Legg Mason Western Asset Core Plus Bond					2,725
Legg Mason Core Plus Bond IS					1,022,323
<b>Equities:</b>					
Alger Funds Small Cap Focus Z					329,309
Alger Funds Spectra Z					553,905
Columbia Contrarian Core					455,174
Coakmark Select					455,259
Hartford Funds Midcap Class Y					225,962
Undiscovered Managers Behavioral Value					220,826
Vangaurd Goup Mid Cap Index Fund					34
Brandes Funds International Equity-R6					439,529
Brandes Funds International Small Cap Equity					225,218
Brandes Funds Emerging Markets Fund Class I					169,848
Hartford International Value-Y					332,898
Clearbridge International CM Cap- IS					223,057
American Funds New Perspective F2					230,859
American Funds New World F2					169,331
Thornburg Investment Income Builder I					333,643
<b>Real Estate:</b>					
Cohen and Steers Real Estate Securities-Z					329,709
Prudential Funds Global Real Estate CL Q					334,455
Accrued Income					182
<b>Total Investments</b>					<b>\$ 11,333,929</b>

Investment security ratings reported as of June 30, 2016, are defined by Standard and Poors.

## **FONTANA UNIFIED SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2016*

---

#### **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, 2016, 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, 2016, \$1,419,829 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, 2016***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2016, consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 14,424,764	\$ 14,424,764	\$ -
Benefit-Trust:			
Fixed Income:			
Blackrock Total Return-K	915,287	915,287	-
Blackrock Total Return	1,972	1,972	-
Blackrock Strategic Income Fund	1,104	1,104	-
Blackrock Stratific Income Opps-K	457,824	457,824	-
Geggenheim Investments I	915,287	915,287	-
Hartford World Bond-Y	457,794	457,794	-
Legg Mason BW Global	467,912	467,912	-
Legg Mason BW Alternative Credit	342,480	342,480	-
Prudential Funds Total Return Bond CL Q	1,031,601	1,031,601	-
Franklin Templeton Mutual FDS	688,422	688,422	-
Legg Mason Western Asset Core Plus Bond	2,725	2,725	-
Legg Mason Core Plus Bond IS	1,022,323	1,022,323	-
Equities:			
Alger Funds Small Cap Focus Z	329,309	329,309	-
Alger Funds Spectra Z	553,905	553,905	-
Columbia Contrarian Core	455,174	455,174	-
Coakmark Select	455,259	455,259	-
Hartford Funds Midcap Class Y	225,962	225,962	-
Undiscovered Managers Behavioral Value	220,826	220,826	-
Vanguard Goup Mid Cap Index Fund	34	34	-
Brandes Funds International Equity-R6	439,529	439,529	-
Brandes Funds International Small Cap Equity	225,218	225,218	-
Brandes Funds Emerging Markets Fund Class I	169,848	169,848	-
Hartford International Value-Y	332,898	332,898	-
Clearbridge International CM Cap- IS	223,057	223,057	-
American Funds New Perspective F2	230,859	230,859	-
American Funds New World F2	169,331	169,331	-
Thornburg Investment Income Builder I	333,643	333,643	-
Real Estate:			
Cohen and Steers Real Estate Securities-Z	329,709	329,709	-
Prudential Funds Global Real Estate CL Q	334,455	334,455	-
Accrued Income	182	182	-
Total	<u>\$ 25,758,693</u>	<u>\$ 25,758,693</u>	<u>\$ -</u>

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2016

---

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

**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, 2016, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**Investments - Concentration of Credit Risk**

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the District had the following investment that represented more than five percent of the District's net investments:

U.S. Bank Money Market 56%

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016, 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	\$ 6,192,427	\$ 4,734,316	\$ -	\$ 262,630	\$ 11,189,373	\$ -
State Government:						
Lottery	4,372,183	-	-	-	4,372,183	-
Special education	1,275,195	311,953	-	-	1,587,148	-
Categorical aid programs	703,182	-	-	328,267	1,031,449	-
Local:						
Interest	237,572	12,911	33,289	64,751	348,523	11,853
Trust reimbursement	5,504,192	-	-	-	5,504,192	-
Miscellaneous	-	-	-	160,687	160,687	-
Other local resources	27,591	26,526	-	26,212	80,329	-
<b>Total</b>	<b>\$ 18,312,342</b>	<b>\$ 5,085,706</b>	<b>\$ 33,289</b>	<b>\$ 842,547</b>	<b>\$ 24,273,884</b>	<b>\$ 11,853</b>

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2016*

**NOTE 4 – INTERFUND TRANSACTIONS**

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

Balances due to/from other funds at June 30, 2016, consisted of the following:

	Due From Other Funds				Total
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Proprietary Fund	
General Fund	\$ -	\$ 34,847	\$ 1,934,982	\$ 2,871,561	\$ 4,841,390
Cafeteria Fund	3,263,957	-	-	95,307	3,359,264
Capital Project Fund for Blended Component Units	-	-	4,148	-	4,148
Non-Major Governmental Funds	1,897,769	2,167	-	69,933	1,969,869
Self-Insurance Fund	68,851	1,902	9,188	-	79,941
<b>Total</b>	<b>\$ 5,230,577</b>	<b>\$ 38,916</b>	<b>\$ 1,948,318</b>	<b>\$ 3,036,801</b>	<b>\$ 10,254,612</b>

Adult Education Fund due to General Fund for printing, vehicle repairs, year end suspense transfers, and indirect costs expenditures	\$ 550,139
Cafeteria Fund due to General Fund for vehicle repairs, fuel costs, year-end suspense transfers, PERS reduction, and indirect costs	3,263,957
Child Development Fund due to General Fund for salary adjustment, printing, year-end suspense transfers, indirect costs, and 4th quarter IC	1,217,241
General Fund due to Special Reserve Fund for Capital Outlay Projects for RDA Funds Distribution	1,932,422
General Fund due to Self-Insurance Fund for self-insurance premiums	2,871,561
All other interfund receivables/payables	419,292
<b>Total</b>	<b>\$ 10,254,612</b>

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

Transfers to/from other funds for the fiscal year ended June 30, 2016, consisted of the following:

General Fund to Cafeteria Fund for reimbursement of disallowed costs in prior year	\$ 32,395
General Fund to Child Development Fund for miscellaneous costs	791
<b>Total</b>	<b>\$ 33,186</b>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2016

**NOTE 5 – FUND BALANCES**

At June 30, 2016, fund balances of the District's governmental funds were classified as follows:

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 75,000	\$ 9,970	\$ -	\$ -	\$ 84,970
Inventories	-	190,251	-	-	190,251
Prepaid expenditures	562,653	-	-	-	562,653
Total Nonspendable	<u>637,653</u>	<u>200,221</u>	<u>-</u>	<u>-</u>	<u>837,874</u>
<b>Restricted:</b>					
Categorical programs	22,475,001	-	-	582,205	23,057,206
Adult education program	-	-	-	292,158	292,158
Food service program	-	12,098,930	-	-	12,098,930
Capital projects	-	-	29,382,258	32,610,287	61,992,545
Debt service	-	-	-	18,023,852	18,023,852
Total Restricted	<u>22,475,001</u>	<u>12,098,930</u>	<u>29,382,258</u>	<u>51,508,502</u>	<u>115,464,691</u>
<b>Committed:</b>					
Deferred maintenance program	-	-	-	875,308	875,308
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>875,308</u>	<u>875,308</u>
<b>Assigned:</b>					
Other assignments	61,753,757	-	-	276,432	62,030,189
Total Assigned	<u>61,753,757</u>	<u>-</u>	<u>-</u>	<u>276,432</u>	<u>62,030,189</u>
<b>Unassigned:</b>					
Remaining unassigned balances	49,842,528	-	-	-	49,842,528
Total Unassigned	<u>49,842,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,842,528</u>
Total	<u>\$ 134,708,939</u>	<u>\$ 12,299,151</u>	<u>\$ 29,382,258</u>	<u>\$ 52,660,242</u>	<u>\$ 229,050,590</u>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance, July 1, 2015	Additions	Retirements	Balance, June 30, 2016
<b>Capital assets not being depreciated:</b>				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	19,431,277	17,276,364	-	36,707,641
Total capital assets not being depreciated	<u>78,308,579</u>	<u>17,276,364</u>	<u>-</u>	<u>95,584,943</u>
<b>Capital assets being depreciated:</b>				
Improvement of sites	69,093,332	240,745	-	69,334,077
Buildings	624,758,976	2,327,335	-	627,086,311
Equipment	48,730,290	11,392,619	614,564	59,508,345
Total capital assets being depreciated	<u>742,582,598</u>	<u>13,960,699</u>	<u>614,564</u>	<u>755,928,733</u>
<b>Accumulated depreciation for:</b>				
Improvement of sites	(36,724,550)	(2,391,893)	-	(39,116,443)
Buildings	(193,665,086)	(15,456,932)	-	(209,122,018)
Equipment	(37,384,154)	(4,063,953)	(601,714)	(40,846,393)
Total accumulated depreciation	<u>(267,773,790)</u>	<u>(21,912,778)</u>	<u>(601,714)</u>	<u>(289,084,854)</u>
Total capital assets being depreciated, net	<u>474,808,808</u>	<u>(7,952,079)</u>	<u>12,850</u>	<u>466,843,879</u>
Governmental activity capital assets, net	<u>\$ 553,117,387</u>	<u>\$ 9,324,285</u>	<u>\$ 12,850</u>	<u>\$ 562,428,822</u>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2016*

**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2016, were as follows:

	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016	Amount Due Within One Year
<b>General Obligation Bonds:</b>					
Principal repayments	\$ 216,372,418	\$ 49,910,000	\$ 59,432,184	\$ 206,850,234	\$ 8,581,175
Accreted interest component	17,618,295	4,638,523	1,752,816	20,504,002	1,878,825
Unamortized issuance premium	15,038,368	7,598,173	4,634,391	18,002,150	1,284,684
Total - Bonds	<u>249,029,081</u>	<u>62,146,696</u>	<u>65,819,391</u>	<u>245,356,386</u>	<u>11,744,684</u>
<b>Certificates of Participation:</b>					
Principal repayments	41,015,000	27,945,000	37,915,000	31,045,000	1,845,000
Unamortized issuance premium	501,301	3,960,745	461,597	4,000,449	200,168
Total - Certificates of Participation	<u>41,516,301</u>	<u>31,905,745</u>	<u>38,376,597</u>	<u>35,045,449</u>	<u>2,045,168</u>
<b>Qualified Zone Academy Bond</b>					
Scheduled deposits	1,485,766	-	247,628	1,238,138	247,627
Accumulated interest	672,680	-	85,877	586,803	95,956
Total - Qualified Zone Academy Bond	<u>2,158,446</u>	<u>-</u>	<u>333,505</u>	<u>1,824,941</u>	<u>343,583</u>
Compensated Absences	1,983,702	103,136	-	2,086,838	-
Other Postemployment Benefits	49,443,879	9,151,399	-	58,595,278	-
Net Pension Liability	243,517,899	72,259,324	-	315,777,223	-
Totals	<u>\$ 587,649,308</u>	<u>\$ 175,566,300</u>	<u>\$ 104,529,493</u>	<u>\$ 658,686,115</u>	<u>\$ 14,133,435</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of Participation payments are made by the Capital Projects Fund for Blended Component Units. QZAB payments are made by the Special Reserve Fund for Capital Outlay Projects. Accumulated vacation and pension costs 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, 2016, 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, 2016, the principal balance outstanding on the previously defeased debt has been fully paid.

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

---

#### NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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

###### 2012 Refunding General Obligation Bonds

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

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred 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, 2016 of \$3,918,614 remain to be amortized.

###### 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.

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, 2016, of \$8,331 remain to be amortized.

###### 2016 Refunding General Obligation Bonds

On June 1, 2016, the District issued \$49,910,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from August 1, 2016 through August 1, 2028. The net proceeds of \$56,771,419 (after premiums of \$7,598,173 and issuance costs of \$736,754) were used to prepay a portion of the District's outstanding Election of 2006 General Obligation Bonds, Series B.

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, 2016 of \$1,825,551 remain to be amortized for this refunding. As of June 30, 2016, the principal balance outstanding on the defeased debt amounted to \$50,975,000.

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2016

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

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

**2016 Refunding General Obligation Bonds (continued)**

The refunding decreased the District's total debt service payments by \$9,715,040. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$8,442,608.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016
<b>Refunding Bonds</b>								
1997R	6/18/1997	2018	4.40%-5.95%	\$ 18,670,227	\$ 2,387,069	\$ -	\$ 647,184	\$ 1,739,885
2009R	2/11/2009	2022	3.0% - 5.25%	18,110,000	11,500,000	-	1,325,000	10,175,000
2012R	10/25/2012	2031	2.0%-5.0%	78,115,000	74,980,000	-	2,070,000	72,910,000
2014R	5/22/2014	2031	2.25%-5.0%	12,975,000	12,975,000	-	3,165,000	9,810,000
2016R	6/1/2016	2029	2.0%-5.0%	49,910,000	-	49,910,000	-	49,910,000
Subtotal Refunding Bonds					101,842,069	49,910,000	7,207,184	144,544,885
<b>Measure C (2006)</b>								
2006B	3/11/2008	2033	3.0% - 5.25%	70,585,909	67,270,909	-	52,225,000	15,045,909
2006C	10/25/2012	2044	5.0%-5.75%	47,259,440	47,259,440	-	-	47,259,440
Subtotal Measure C					114,530,349	-	52,225,000	62,305,349
Total					\$ 216,372,418	\$ 49,910,000	\$ 59,432,184	\$ 206,850,234
Accreted Interest								
				1997R	\$ 5,278,804	\$ 501,334	\$ 1,752,816	\$ 4,027,322
				2006B	6,070,751	1,162,575	-	7,233,326
				2006C	6,268,740	2,974,614	-	9,243,354
					\$ 17,618,295	\$ 4,638,523	\$ 1,752,816	\$ 20,504,002

The annual requirements to amortize general obligation bonds outstanding at June 30, 2016, are as follows:

Year	Principal	Interest	Total
2016-17	\$ 8,581,175	\$ 7,256,664	\$ 15,837,839
2017-18	8,711,800	7,649,256	16,361,056
2018-19	9,616,910	7,382,471	16,999,381
2019-20	9,815,000	4,876,906	14,691,906
2020-21	8,925,000	4,459,756	13,384,756
2021-26	51,620,000	15,673,544	67,293,544
2026-31	57,603,850	19,112,134	76,715,984
2031-36	20,154,479	57,581,434	77,735,913
2036-41	20,384,750	65,215,250	85,600,000
2041-45	11,437,270	50,862,730	62,300,000
Total	\$ 206,850,234	\$ 240,070,145	\$ 446,920,379

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2016*

---

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

**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.

**2016 Refunding Certificates of Participation**

On June 8, 2016, the District issued \$27,945,000 in Certificates of Participation. The certificates bear fixed interest rates ranging between 3.0% and 5.0% with annual maturities from September 1, 2016 through September 1, 2035. The net proceeds of \$38,711,200 (after premiums of \$3,960,745 and issuance costs of \$555,688) were used to prepay a portion of the District’s outstanding 2007 Certificates of Participation.

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 certificates. As a result, the refunded certificates 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, 2016 of \$1,696,062 remain to be amortized for this refunding. As of June 30, 2016, the principal balance outstanding on the defeased debt amounted to \$36,480,000.

The refunding decreased the District's total debt service payments by \$14,344,094. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$11,756,188.

The annual requirements to amortize all certificates are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-17	\$ 1,845,000	\$ 978,456	\$ 2,823,456
2017-18	2,830,000	1,197,275	4,027,275
2018-19	1,335,000	1,099,325	2,434,325
2019-20	1,420,000	1,030,450	2,450,450
2020-21	1,505,000	957,325	2,462,325
2021-26	8,595,000	3,564,550	12,159,550
2026-31	8,240,000	1,642,100	9,882,100
2031-36	5,275,000	417,050	5,692,050
Total	<u>\$ 31,045,000</u>	<u>\$ 10,886,531</u>	<u>\$ 41,931,531</u>

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

---

#### 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
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>\$ 1,238,138</u>	<u>\$ 586,803</u>	<u>\$ 1,824,941</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, 2015, for the JPAs are as follows:

	REEP	ReLiEF	SEWUP
Assets	\$ 21,675,035	\$ 50,192,937	\$ 19,742,565
Liabilities	7,865,808	49,890,802	17,899,415
Net Assets	<u>\$ 13,809,227</u>	<u>\$ 302,135</u>	<u>\$ 1,843,150</u>
Revenues	\$ 94,754,409	\$ 33,301,359	\$ 10,275,815
Expenses	100,456,332	46,126,392	11,520,340
Operating Income	(5,701,923)	(12,825,033)	(1,244,525)
Non-Operating Income	41,408	225,598	113,850
Change in Net Assets	<u>\$ (5,660,515)</u>	<u>\$ (12,599,435)</u>	<u>\$ (1,130,675)</u>

## FONTANA UNIFIED SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2016*

---

#### **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, 2016, the District had commitments with respect to unfinished capital projects of approximately \$7.9 million 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, 2016.

#### **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, 2016, 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 2015-16, 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, 2016*

---

**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, 2014 to June 30, 2016:

	Workers' Compensation
Liability Balance, July 1, 2014	\$ 4,988,277
Claims and changes in estimates	2,838,719
Claims payments	<u>(2,285,840)</u>
Liability Balance, June 30, 2015	5,541,156
Claims and changes in estimates	2,043,852
Claims payments	<u>(2,043,126)</u>
Liability Balance, June 30, 2016	<u>\$ 5,541,882</u>
Assets available to pay claims at June 30, 2016	<u>\$ 9,301,826</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, 2016

---

#### 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 under *2% at 60* were required to contribute 9.2% and plan members under *2% at 62* were required to contribute 8.56% of their salary in 2015-16. The required employer contribution rate for fiscal year 2015-16 was 10.73% 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, 2016***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 2015-16 was 11.847%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Employer contributions	\$ 19,677,730	\$ 7,693,218
Employer contributions paid by State	\$ 11,132,935	-
Employee contributions paid by employer	\$ -	-

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

As of June 30, 2016, 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	\$ 243,712,880
CalPERS	72,064,343
Total Net Pension Liability	<u>\$ 315,777,223</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, 2015, 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, 2014, rolled forward to June 30, 2015, 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, 2014 and 2015, was as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Proportion - June 30, 2014	0.3150%	0.5236%
Proportion - June 30, 2015	0.3620%	0.4889%
Change - Increase (Decrease)	<u>0.0470%</u>	<u>-0.0347%</u>

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2016

**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, 2016, the District recognized pension expense of \$34,628,169. At June 30, 2016, 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	\$ 27,370,948	\$ -
Differences between actual and expected experience	4,118,583	(4,072,500)
Changes in assumptions	-	(4,427,834)
Adjustment due to differences in proportions	31,491,818	-
Net differences between projected and actual earnings on plan investments	11,835,801	(34,169,905)
	<u>\$ 74,817,150</u>	<u>\$ (42,670,239)</u>

The total amount of \$27,370,948 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, 2017. 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
2017	\$ (2,144,659)
2018	(1,570,091)
2019	2,072,231
2020	(581,786)
2021	(581,786)
Thereafter	-

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

## FONTANA UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

---

#### 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, 2014 valuation were based on the results of a April 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 for PERF B was 7.65 percent. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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.

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds' asset classes, expected compound (geometric) 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.

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2016

**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 real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

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%	51%	4.50%	5.71%
Global Debt Securities	N/A	19%	N/A	2.43%
Inflation Sensitive	5%	6%	3.20%	3.36%
Private Equity	12%	10%	6.20%	6.95%
Real Estate	15%	10%	4.35%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	20%	N/A	0.20%	N/A
Liquidity	1%	2%	0.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

**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%	6.65%
Net Pension Liability	\$ 367,987,480	\$ 117,290,718
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 243,712,880	\$ 72,064,343
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 140,430,660	\$ 34,455,584

**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.

# FONTANA UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

---

### NOTE 12 – PENSION PLANS (continued)

#### C. Payable to the Pension Plans

At June 30, 2016, the District reported a payable of \$1,718,743 and \$245,402 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2016.

### 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.

##### 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 \$11,333,929 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, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	528
Active plan members	3,579
Total	<u>4,107</u>
Number of participating employers	One

**FONTANA UNIFIED SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2016***NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)****B. Plan Descriptions and Contribution Information (continued)****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 \$5.4 million in 2015-16.

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

Annual required contribution (ARC)	\$ 15,231,016
Interest on net OPEB obligation	2,224,975
Adjustment to ARC	<u>(2,898,234)</u>
Annual OPEB cost	<u>14,557,757</u>
Contributions made:	
Contributions from governmental funds to Retiree Benefits Fund	(5,406,358)
Pay-as-you-go costs	-
Total contributions made	<u>(5,406,358)</u>
Increase in net OPEB liability	9,151,399
Net OPEB liability - July 1, 2015	49,443,879
Net OPEB liability - June 30, 2016	<u>\$ 58,595,278</u>

**FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2016*

---

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

**B. Plan Descriptions and Contribution Information (continued)**

**Contributions (continued)**

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 2015-16 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Liability
2014	\$ 13,337,056	39%	\$ 43,435,385
2015	\$ 13,383,494	55%	\$ 49,443,879
2016	\$ 14,557,757	37%	\$ 58,595,278

**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, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	23 years
Asset Valuation	Provided by District
Actuarial Assumptions:	
Discount rate	4.5%
Long-term healthcare cost trend rate	4.0%
Inflation	2.75%

*(This page intentionally left blank)*

---

---

***Required Supplementary Information***

---

---

*(This page intentionally left blank)*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
LCFF sources	\$ 354,886,229	\$ 358,105,341	\$ 358,105,341	\$ -
Federal sources	22,554,803	29,289,531	24,026,259	(5,263,272)
Other state sources	43,383,873	77,918,386	75,033,484	(2,884,902)
Other local sources	2,553,686	7,251,859	7,094,245	(157,614)
<b>Total Revenues</b>	<b>423,378,591</b>	<b>472,565,117</b>	<b>464,259,329</b>	<b>(8,305,788)</b>
<b>Expenditures</b>				
Current:				
Certificated salaries	173,853,370	202,551,176	184,612,541	17,938,635
Classified salaries	53,993,423	59,757,169	56,149,675	3,607,494
Employee benefits	94,594,077	113,018,655	107,137,948	5,880,707
Books and supplies	38,499,500	52,624,606	23,269,526	29,355,080
Services and other operating expenditures	33,713,186	52,942,294	40,554,525	12,387,769
Transfers of indirect costs	(1,253,609)	(1,656,694)	(1,534,140)	(122,554)
Capital outlay	2,886,290	26,893,200	6,236,996	20,656,204
Intergovernmental	700,458	700,458	676,617	23,841
<b>Total Expenditures</b>	<b>396,986,695</b>	<b>506,830,864</b>	<b>417,103,688</b>	<b>89,727,176</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,391,896	(34,265,747)	47,155,641	81,421,388
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	-	(33,187)	(33,186)	1
<b>Total Other Financing Sources and Uses</b>	<b>-</b>	<b>(33,187)</b>	<b>(33,186)</b>	<b>1</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,391,896	(34,298,934)	47,122,455	81,421,389
Fund Balances, July 1, 2015	57,065,650	75,762,055	75,762,055	-
<b>Fund Balances, June 30, 2016</b>	<b>\$ 83,457,546</b>	<b>\$ 41,463,121</b>	<b>\$ 122,884,510</b>	<b>\$ 81,421,389</b>

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

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – Cafeteria Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Federal sources	\$ 18,924,099	\$ 20,757,155	\$ 21,675,491	\$ 918,336
Other state sources	1,520,723	1,665,928	1,445,633	(220,295)
Other local sources	2,008,215	2,116,165	1,221,063	(895,102)
<b>Total Revenues</b>	<b>22,453,037</b>	<b>24,539,248</b>	<b>24,342,187</b>	<b>(197,061)</b>
<b>Expenditures</b>				
Current:				
Classified Salaries	6,287,348	8,138,120	8,056,521	81,599
Employee Benefits	3,601,536	3,666,711	3,661,338	5,373
Books and Supplies	9,995,043	13,992,343	13,066,967	925,376
Services and Other Operating Expenditures	815,275	4,004,192	491,650	3,512,542
Transfers of indirect costs	878,835	1,159,994	1,158,998	996
Capital Outlay	875,000	1,427,382	599,985	827,397
<b>Total Expenditures</b>	<b>22,453,037</b>	<b>32,388,742</b>	<b>27,035,459</b>	<b>5,353,283</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(7,849,494)	(2,693,272)	5,156,222
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	-	32,395	32,395	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(7,817,099)	(2,660,877)	5,156,222
Fund Balances, July 1, 2015	13,925,957	14,960,028	14,960,028	-
<b>Fund Balances, June 30, 2016</b>	<b>\$ 13,925,957</b>	<b>\$ 7,142,929</b>	<b>\$ 12,299,151</b>	<b>\$ 5,156,222</b>

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2016*

---

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, 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%
April 1, 2016	\$ 5,934,056	\$ 167,959,691	\$ 85,144,664	7.0%	\$ 271,291,360	31%

**FONTANA UNIFIED SCHOOL DISTRICT***Schedule of Proportionate Share of the Net Pension Liability  
For the Fiscal Year Ended June 30, 2016*

	Last Ten Fiscal Years*	
	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset):		
CalSTRS	0.3620%	0.3150%
CalPERS	0.4889%	0.5236%
District's proportionate share of the net pension liability (asset):		
CalSTRS	\$ 243,712,880	\$ 184,076,550
CalPERS	\$ 72,064,343	\$ 59,441,349
District's covered-employee payroll:		
CalSTRS	\$ 165,939,764	\$ 156,232,242
CalPERS	\$ 57,764,480	\$ 53,355,454
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:		
CalSTRS	146.9%	117.8%
CalPERS	124.7%	111.4%
Plan fiduciary net position as a percentage of the total pension liability:		
CalSTRS	74.0%	76.5%
CalPERS	79.4%	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, 2016*

---

Last Ten Fiscal Years\*

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution:		
CalSTRS	\$ 14,735,451	\$ 12,889,160
CalPERS	\$ 6,799,457	\$ 6,104,931
Contributions in relation to the actuarially determined contribution:		
CalSTRS	\$ 14,735,451	\$ 12,889,160
CalPERS	<u>\$ 6,799,457</u>	<u>\$ 6,104,931</u>
Contribution deficiency (excess):		
CalSTRS	<u>\$ -</u>	<u>\$ -</u>
CalPERS	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll:		
CalSTRS	\$ 165,939,764	\$ 156,232,242
CalPERS	\$ 57,764,480	\$ 53,355,454
Contributions as a percentage of covered-employee payroll:		
CalSTRS	8.88%	8.25%
CalPERS	11.771%	11.42%

\* 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, 2016*

---

#### **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 ratio of the actual contributions divided by covered-employee payroll.

#### **NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS**

##### **Benefit Changes**

There were no changes to benefit terms that applied to all members of the Schools Pool.

##### **Changes of Assumptions**

The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2016*

---

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2016, the District did not incur any excess of expenditures over appropriations by major object code in the individual major fund presented in the Budgetary Comparison Schedule.

*(This page intentionally left blank)*

---

---

***Supplementary Information***

---

---

*(This page intentionally left blank)*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Local Educational Agency Organization Structure*  
*June 30, 2016*

---

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

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Lorena Corona	President	2016
Mary Sandoval	Vice-President / Clerk	2018
Jesse Armendarez	Member	2018
BarBara L. Chavez	Member	2016
Matt Slowik, MVRP, MPA	Member	2018

**DISTRICT ADMINISTRATORS**

Randal Bassett,  
*Interim Superintendent*  
*Associate Superintendent, Business Services*

John R. Porter Jr., Ed.D.  
*Co-Interim Superintendent*

Oscar Dueñas,  
*Associate Superintendent, Student Services*

David Creswell,  
*Associate Superintendent, Human Resources*

Josh Lightle, Ed.D.  
*Interim Associate Superintendent, Teaching & Learning*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2016*

---

	<b>Second Period Report</b>	<b>Annual Report</b>
	Certificate No. (67B3124B)	Certificate No. (6FB364EB)
<b>Regular ADA &amp; Extended Year:</b>		
Transitional Kindergarten through Third	11,189.25	11,220.87
Fourth through Sixth	8,755.59	8,756.51
Seventh through Eighth	5,339.94	5,340.23
Ninth through Twelfth	11,871.37	11,806.28
	<u>37,156.15</u>	<u>37,123.89</u>
<b>Special Education-Nonpublic, Nonsectarian Schools:</b>		
Transitional Kindergarten through Third	1.93	2.34
Fourth through Sixth	6.57	6.73
Seventh through Eighth	6.54	6.93
Ninth through Twelfth	24.23	23.66
	<u>39.27</u>	<u>39.66</u>
Total ADA	<u>37,195.42</u>	<u>37,163.55</u>

**FONTANA UNIFIED SCHOOL DISTRICT***Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2016*

---

<u>Grade Level</u>	<u>Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	53,268	180	Complied
Grade 2	50,400	53,268	180	Complied
Grade 3	50,400	53,268	180	Complied
Grade 4	54,000	54,660	180	Complied
Grade 5	54,000	54,660	180	Complied
Grade 6	54,000	54,690	180	Complied
Grade 7	54,000	58,894	180	Complied
Grade 8	54,000	58,894	180	Complied
Grade 9	64,800	65,416	180	Complied
Grade 10	64,800	65,416	180	Complied
Grade 11	64,800	65,416	180	Complied
Grade 12	64,800	65,416	180	Complied

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

General Fund	(Budget) 2017 <sup>2</sup>	2016	2015	2014
Revenues and other financing sources	\$ 449,241,207	\$ 464,259,329	\$ 374,049,524	\$ 333,797,923
Expenditures	445,924,602	417,103,688	356,160,993	316,890,714
Other uses and transfers out	-	33,186	206,521	11,705,204
Total outgo	445,924,602	417,136,874	356,367,514	328,595,918
Change in fund balance (deficit)	3,316,605	47,122,455	17,682,010	5,202,005
Ending fund balance	\$ 126,201,115	\$ 122,884,510	\$ 75,762,055	\$ 58,080,045
Available reserves <sup>1</sup>	\$ 98,355,645	\$ 49,842,528	\$ 55,586,813	\$ 33,765,708
Available reserves as a percentage of total outgo	22.1%	11.9%	15.6%	10.3%
Total long-term debt	\$ 644,552,680	\$ 658,686,115	\$ 587,649,308	\$ 345,282,536
Average daily attendance at P-2	36,521	37,195	38,106	38,642

The General Fund balance has increased overall over the past two years by \$64,804,465. The fiscal year 2016-17 adopted budget projects an increase of \$3,316,605. 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 surplus in the past three years, and does not anticipate incurring an operating deficit during the 2016-17 fiscal year. Long-term debt has increased by \$313,403,579 over the past two years.

Average daily attendance has decreased by 1,447 over the past two years. A decrease of 674 ADA is anticipated during fiscal year 2016-17.

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

<sup>2</sup> Revised Final Budget August, 2016.

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

**FONTANA UNIFIED SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2016*

---

*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, 2016*

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	\$ 3,262,705	
School Breakfast Program - Basic	10.553	13390	2,681	
National School Lunch Program	10.555	13523	14,678,680	
Summer Food Service Program	10.559	13004	227,792	
USDA Donated Foods	10.555	N/A	<u>1,660,903</u>	
Total Child Nutrition Cluster				\$ 19,832,761
Child and Adult Care Food Program	10.558	13393		975,927
Fresh Fruit and Vegetable Program	10.582	14968		<u>70,881</u>
Total U.S. Department of Agriculture				<u>20,879,569</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	251,555	
Adult Basic Education & ESL	84.002A	14508	67,955	
English Literacy & Civics Education	84.002A	14109	<u>8,270</u>	
Total Adult Education Cluster				327,780
No Child Left Behind (NCLB):				
Title I, Part A Cluster:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	11,888,488	
Title I, Part D, Local Delinquent Programs	84.010	14357	<u>30,294</u>	
Total Title I, Part A Cluster				11,918,782
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14344		1,439,745
Title III, Limited English Proficiency	84.365	14346		1,612,808
Carl Perkins Act - Secondary	84.048	14894		358,995
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	6,290,776	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	7,832	
Preschool Grants, Part B, Sec 619	84.173	13430	151,019	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	234,744	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	437,852	
Preschool Staff Development	84.173A	13431	1,411	
Quality Assurance & Focused Monitoring	84.027A	13693	<u>53,938</u>	
Total Special Education Cluster				7,177,572
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		<u>226,069</u>
Total U.S. Department of Education				<u>23,191,636</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		134,493
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	433,740	
Medi-Cal Administrative Activities (MAA)	N/A	10060	<u>350,099</u>	
Total Medicaid Cluster				783,839
Direct Federal to Local Program:				
Head Start Cluster:				
Head Start	93.600	10016	106,570	
Early Head Start	93.600	10016	<u>277,920</u>	
Total Head Start Cluster				384,490
Total U.S. Department of Health & Human Services				<u>1,302,822</u>
Total Expenditures of Federal Awards				<u>\$ 45,374,027</u>

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

## **FONTANA UNIFIED SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2016*

---

### **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 required by Education Code section 46201.

#### **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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The District did not elect to use the ten percent de minimis indirect cost rate.

*(This page intentionally left blank)*

---

---

***Other Independent Auditors' Reports***

---

---

*(This page intentionally left blank)*



**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, 2016, 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 18, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

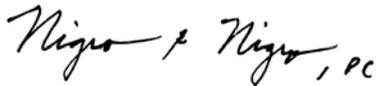
As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2016-001 and 2016-002.

**Fontana Unified School District's Responses to Findings**

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

**Purpose of this Report**

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



Murrieta, California  
November 18, 2016



## 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 *2015-16 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, 2016.

### **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 *2015-16 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
Educator Effectiveness	No (see below)
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	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. We did not perform testing for Educator Effectiveness because the District did not have any expenditures.

**Unmodified Opinion on Compliance with State Programs**

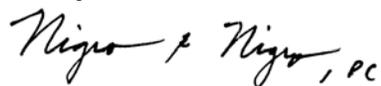
In our opinion, Fontana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

**Other Matter**

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above, which is required to be reported in accordance with *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-002.

**District's Response to Finding**

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 in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California  
November 18, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 *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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

Fontana Unified School District's response to the noncompliance 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.

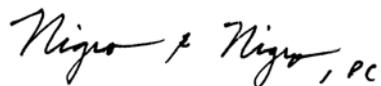
### **Report on Internal Control Over Compliance**

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Murrieta, California  
November 18, 2016

---

---

***Findings and Questioned Costs***

---

---

*(This page intentionally left blank)*

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

---

**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 the Uniform Guidance, Section 200.516	<u>Yes</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.010</u> <u>Title I, Part A Basic Grants</u>	
<u>84.365</u> <u>Title III, Limited English Proficiency</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,361,221</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>
---	-------------------

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

---

**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 2015-16.***

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

---

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

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

**Finding 2016-001: 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, 2016, the reserve balance in the Cafeteria Fund was \$12,299,151. Three months average expenditures are \$9,011,820. The excess cash reserves are \$3,287,331.

**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.

**Views of Responsible Officials:** 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, 2016*

---

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

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

**Finding 2016-002: Unduplicated Pupil Counts (40000)**

**Criteria:** Supplemental and concentration grant amounts are calculated based on the percentage of “unduplicated pupils” enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch program, or (3) are foster youth. “Unduplicated count” means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

**Condition:** We found three pupils who were classified as an English Learner (EL), but there was no evidence to indicate that the pupil was properly classified as EL.

**Context:** We noted three errors at three different schools for a total of three exceptions out of 81 pupils selected in our sample.

**Questioned Costs:** \$2,827. This amount was determined by using the CDE calculator.

**Effect:** The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes as a result of the procedures performed:

School Site:	CALPADS Reported	Adjusted based on EL eligibility	Adjusted Total
Birch High (Continuation)	291	(1)	290
Canyon Crest Elementary	484	(1)	483
Sierra Lakes Elementary	447	(1)	446
Agregate of remaining schools	33,039	-	33,039
District-wide	34,261	(3)	34,258

The enrollment count of 38,742 was not impacted as a result of the procedures performed.

**Recommendation:** We recommend that the District take extra care to ensure that all pupils are properly classified on the CALPADS report in the future.

**Views of Responsible Officials:** The District will adopt procedures to address the factors that caused the necessary adjustment to the Unduplicated Pupil Count. Procedures will include taking additional steps to ensure that students transferring into the District are properly reported as English Learners based on their Home Language Survey, CELDT scores, and other evidence that supports this designation. These procedures will ensure that students are being classified and reported correctly in the CALPADS student database system and that adequate supporting documentation exists to support their designation.

**FONTANA UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2016*

---

<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2015-1: 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, 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.</p>	50000	We recommend the District continue following the spending plan submitted to the CDE.	Partially Implemented. See Finding 2016-001.

*(This page intentionally left blank)*



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, 2016, 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 18, 2016, on the financial statements of Fontana Unified School District.

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

**Observation:** At *Fontana* and *Summit High and Southridge Middle*, we found accounts that are not appropriate ASB accounts. The schools had accounts titled: “Class of 201x” (for 2012-2015), “Test”, “AP Fees”, and “PSAT Fees”. The old class accounts should be cleared out and the funds transferred to the general ASB account. ASB accounts are not and should not be used as pass-through or clearing accounts for District funds.

**Recommendation:** Accepting the District funds into the ASB account is also considered commingling of funds. We recommend that the sites forward all District funds to the District Office for receipt or open a separate clearing account for funds to be transferred to the District on a monthly basis.

**Observation:** At *Fontana* and *Summit High*, we identified that bank reconciliations were not prepared timely. The September reconciliation for Fontana High was completed in November, and the October through December reconciliations were prepared just days before our audit visit in February. The Summit High reconciliations for August and September were prepared at the end of October, and the October reconciliation was prepared in December.

**Recommendation:** Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or ASB Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

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

**Observation:** At *Summit High School*, our sample of cash disbursements included three checks written consecutively on July 14 to reimburse the Activities Director for more than \$7,200 for expenses incurred during the previous school years, going back to 2014.

**Recommendation:** The reimbursements were described as being primarily for food, decorations, conferences and supplies, though it is difficult to assess the propriety of the expenses so much further after the date they were incurred. The District should investigate these reimbursements to determine their validity. Furthermore, use of reimbursements can also be a method to circumvent the normal purchasing process at the ASB and should be discouraged.

**Observation:** During our testing of cash disbursements at *Southridge Middle*, we noted that six of the ten disbursements sampled were not approved by the District Representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred.

**Recommendation:** Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. 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.

**Observation:** During our tests of cash disbursements, we noted one disbursement at *Southridge Middle* that was lacking any supporting documentation.

**Recommendation:** Issuing payment for expenditures without proper supporting documentation such as invoices or receipts can create the opportunity for the misappropriation of student funds. We advise the District to follow-up on the noted exception to ensure that the disbursement was for a legitimate transaction. In addition, we recommend that the site require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

**Observation:** In our testing of cash receipts, we found one deposit that lacked sufficient supporting documentation. At *Southridge Middle*, there was no revenue potential, tally sheet or other documentation for a Press-Enterprise fundraiser deposited on 2/2. Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts.

**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 event 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, such as ticket logs, tally sheets, pre-numbered cash receipts, or cash register receipts, should be established that will allow for the reconciliation between money collected and event sales.

## DISTRICT OFFICE

**Observation:** According to the CSEA agreement, employees are allowed to accumulate no more than one year's worth of vacation time without needing to reduce their balance. For employees over ten years this may equate to 160 hours or 4 weeks. There are 36 employees with vacation balances greater than 160 hours. The liability for compensated absences increased by \$103,136 for the year.

**Recommendation:** We recommend the District investigate the cause for the increase in vacation balances and work to reduce the liability by requiring employees to take vacations, which is a good internal control.

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

*Nigro & Nigro, PC*

Murrieta, California  
November 18, 2016