

**FONTANA UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**



FONTANA UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2017
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FONTANA UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2017

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Fontana Unified School District
Fontana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District, as of and for the fiscal year ended June 30, 2017, 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 *2016-17 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, 2017, 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.

Change in Accounting Principle

As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2016-17 due to the adoption of Governmental Accounting Standards Board Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and the early adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of these standards required retrospective application, resulting in a \$77,571,540 reduction of previously reported net position at July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

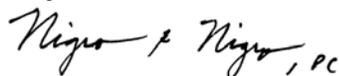
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on pages 57 and 58, schedule of changes in the net OPEB liability and related ratios on page 59, schedule of OPEB contributions on page 60, schedule of investment returns on page 61, schedule of proportionate share of the net pension liability on page 62, and schedule of contributions on page 63 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 67 to 70 and the schedule of expenditures of federal awards on page 71 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 66 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 December 12, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 12, 2017

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

This discussion and analysis of Fontana Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$26.7 million, or 29.8%.
- Governmental expenses were about \$513.9 million. Revenues were about \$540.6 million.
- The District acquired over \$12.7 million in new capital assets during the year. These expenditures were incurred primarily from construction in progress and equipment purchases.
- The District decreased its outstanding long-term debt by \$22.5 million. This was primarily due to the decrease in OPEB liability and bond payments.
- Grades K-12 average daily attendance (ADA) decreased by 704, or 1.9%.

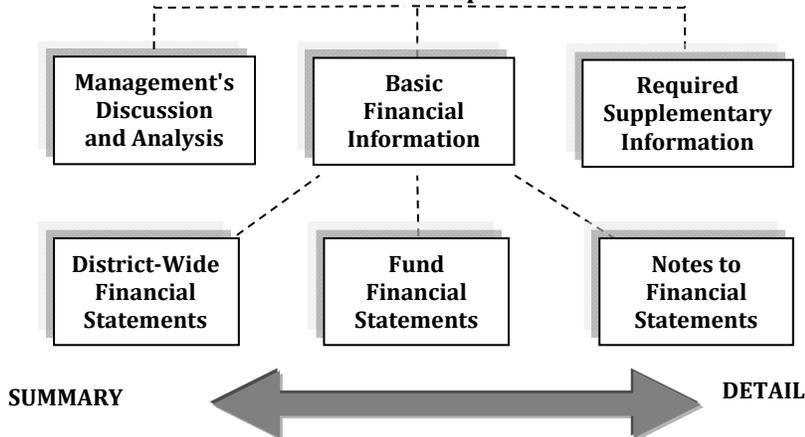
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

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, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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, 2017, than it was the year before – increasing 29.8% to \$116.6 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2017	2016*	Increase (Decrease)
Assets			
Current assets	\$ 314,690,396	\$ 297,676,899	\$ 17,013,497
Capital assets	551,282,509	562,428,822	(11,146,313)
Total assets	865,972,905	860,105,721	5,867,184
Deferred outflows of resources	124,713,985	82,265,708	42,448,277
Liabilities			
Current liabilities	62,968,273	68,108,639	(5,140,366)
Long-term liabilities	397,983,363	342,908,892	55,074,471
Net pension liability	393,158,092	315,777,223	77,380,869
Total liabilities	854,109,728	726,794,754	127,314,974
Deferred inflows of resources	19,985,203	42,670,239	(22,685,036)
Net position			
Net investment in capital assets	328,703,040	330,088,306	(1,385,266)
Restricted	96,503,105	86,282,654	10,220,451
Unrestricted	(308,614,186)	(326,540,256)	17,926,070
Total net position	\$ 116,591,959	\$ 89,830,704	\$ 26,761,255

**as restated under GASB 74.*

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues increased 1.7% to \$540.6 million (See Table A-2). The increase is due primarily to higher charges for services.

The total cost of all programs and services increased 2.5% to \$513.9 million. The District's expenses are predominantly related to educating and caring for students, 79.4%. The purely administrative activities of the District accounted for just 3.9% of total costs. A significant contributor to the increase in costs was negotiated salary and benefit increases and one-time facility projects.

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 9,361,290	\$ 6,847,456	\$ 2,513,834
Operating grants and contributions	111,045,434	102,447,989	8,597,445
Capital grants and contributions	(2,820,525)	74,638	(2,895,163)
General Revenues:			
Property taxes	44,972,631	41,915,766	3,056,865
Federal and state aid not restricted	366,541,131	362,907,322	3,633,809
Other general revenues	11,528,546	17,430,939	(5,902,393)
Total Revenues	540,628,507	531,624,110	9,004,397
Expenses			
Instruction-related	348,022,150	337,067,867	10,954,283
Pupil services	60,016,195	56,357,418	3,658,777
Administration	20,290,032	22,071,367	(1,781,335)
Plant services	49,853,563	46,239,576	3,613,987
All other activities	35,685,312	39,470,650	(3,785,338)
Total Expenses	513,867,252	501,206,878	12,660,374
Increase (decrease) in net position	\$ 26,761,255	\$ 30,417,232	\$ (3,655,977)

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

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 \$250.6 million, which is above last year's ending fund balance of \$223.5 million. The primary cause of the increased fund balance is state and federal revenue.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2016*	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2017
General Fund	\$ 117,380,318	\$ 470,486,644	\$ 443,741,541	\$ (7,544,319)	\$ 136,581,102
Adult Education Fund	503,759	2,028,651	2,227,943	-	304,467
Child Development Fund	647,036	8,107,349	7,765,923	8,971	997,433
Cafeteria Fund	12,299,151	25,158,439	27,549,362	694	9,908,922
Deferred Maintenance Fund	875,308	7,438	62,510	-	820,236
Special Reserve Fund (Other Than Capital Outlay)	11,824,429	101,552	-	-	11,925,981
Capital Facilities Fund	11,994,285	6,806,994	768,191	-	18,033,088
County School Facilities Fund	13,269,102	(2,820,525)	-	-	10,448,577
Special Reserve Fund (Capital Outlay)	7,346,900	57,662	248,341	8,429,054	15,585,275
Capital Outlay Fund for Blended Component Units	29,382,258	5,866,601	7,525,391	-	27,723,468
Bond Interest and Redemption Fund	18,023,852	16,046,318	15,841,164	-	18,229,006
	<u>\$ 223,546,398</u>	<u>\$ 531,847,123</u>	<u>\$ 505,730,366</u>	<u>\$ 894,400</u>	<u>\$ 250,557,555</u>

*As restated

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 \$35.9 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$52.7 million due to negotiated increases in salaries and benefits.
- Other non-personnel expenses – increased \$59.9 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$73.3 million, the actual results for the year show that revenues exceeded expenditures by roughly \$26.7 million. Actual revenues were \$14.7 million less than anticipated, but expenditures were \$114.7 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2017, that will be carried over into the 2017-18 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$12.7 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$23.8 million.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2017	2016	
Land	\$ 58,877,302	\$ 58,877,302	\$ -
Improvement of sites	28,019,762	30,217,634	(2,197,872)
Buildings	434,422,983	417,964,293	16,458,690
Equipment	18,675,418	18,661,952	13,466
Construction in progress	11,287,044	36,707,641	(25,420,597)
Total	<u>\$ 551,282,509</u>	<u>\$ 562,428,822</u>	<u>\$ (11,146,313)</u>

Long-Term Debt

At year-end the District had \$398.0 million in general obligation bonds, certificates of participation, QZABs, capital leases, and employment benefits – a decrease of 5.4% from last year’s restated balance – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2017	2016*	
General obligation bonds	\$ 238,333,127	\$ 245,356,386	\$ (7,023,259)
Certificates of participation	33,000,281	35,045,449	(2,045,168)
QZABs	1,481,358	1,824,941	(343,583)
Compensated absences	2,139,120	2,086,838	52,282
Capital leases	834,773	-	834,773
Other postemployment benefits	122,194,704	136,166,818	(13,972,114)
Total	<u>\$ 397,983,363</u>	<u>\$ 420,480,432</u>	<u>\$ (22,497,069)</u>

* as restated under GASB 74.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year.

Proposition 98 Establishes Minimum Spending Level (continued)

If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a “settle-up” obligation. In some years, the state also creates or pays “maintenance factor.” Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly

The 2015-16 minimum guarantee has decreased \$379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased \$53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased \$558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by \$484 million, but total spending, including a settle-up payment of \$514 million, is up slightly (\$29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up \$3.1 Billion Over Revised 2016-17 Level

In 2017-18, total spending across all segments is \$74.5 billion, an increase of \$3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been \$542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of \$536 million. Under the administration’s estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of \$900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue

Of the total Proposition 98 spending provided in 2017-18, \$52.6 billion is state General Fund and \$21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases \$2.1 billion (accounting for about two-thirds of the \$3.1 billion increase in spending) and property tax revenue increases by \$1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of \$31 million. This consists of a \$131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a \$100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Spending Package Reduces Outstanding Settle-Up Obligation by \$603 Million

The budget plan includes a \$603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above \$1 billion to \$440 million. Of the \$603 million provided, the budget plan allocates \$514 million for covering 2016-17 LCFF costs, \$86 million for the community college guided pathways initiative, and \$3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

K-12 Education

\$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18

The budgeted 2017-18 level is \$2.7 billion (4.3 percent) more than revised 2016-17 level and \$2.2 billion (3.6 percent) more than the 2016-17 Budget Act level. The budget increases funding per student by \$450 (4.3 percent) over the 2016-17 Budget Act level, bringing Proposition 98 funding per student up to \$10,863.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$2.4 billion in augmentations for K-12 education. Of these augmentations, \$1.5 billion are ongoing increases and \$933 million are one-time initiatives. In addition to these changes, the budget package includes \$328 million in one-time initiatives funded from other sources. (Of this amount, \$325 million is from Proposition 98 reversion dollars and \$3 million is from a settle-up payment. Of the reversion dollars, \$114 million is for a fund swap primarily relating to special education.) The budget also authorizes \$593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

The budget provides an additional \$1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to \$57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time augmentation for K-12 education is \$877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance (\$147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third (\$268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be \$799 million at the end of 2017-18.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students.

FONTANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely (continued)

The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

Augments After School Education and Safety (ASES) Program

Proposition 49, passed by the voters in 2002, requires the state to provide \$550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received \$7.50 per child per day. The budget increases ASES funding by \$50 million (9%)—bringing total funding to \$600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

Passed by the voters in November 2016, Proposition 51 authorizes the state to sell \$9 billion in general obligation bonds—\$7 billion for schools and \$2 billion for community colleges. The state plans to issue \$593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of \$368 million in already approved facility projects, as well as \$225 million in additional projects.

Establishes New Audit Rules

Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

All of these factors were considered in preparing the Fontana Unified School District budget for the 2017-18 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, 2017*

	<u>Total Governmental Activities</u>
ASSETS	
Cash	\$ 272,570,313
Investments	20,155,126
Accounts receivable	20,741,681
Inventories	84,070
Prepaid expenses	1,139,206
Non-depreciable assets	70,164,346
Depreciable assets	793,051,501
Less accumulated depreciation	<u>(311,933,338)</u>
Total assets	<u>865,972,905</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	6,957,103
Deferred outflows from pensions	<u>117,756,882</u>
Total deferred outflows of resources	<u>124,713,985</u>
LIABILITIES	
Accounts payable	57,622,108
Unearned revenue	5,346,165
Long-term liabilities:	
Portion due or payable within one year	15,487,704
Portion due or payable after one year	382,495,659
Net pension liability	<u>393,158,092</u>
Total liabilities	<u>854,109,728</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	<u>19,985,203</u>
NET POSITION	
Net investment in capital assets	328,703,040
Restricted for:	
Capital projects	44,066,940
Debt service	18,229,006
Educational programs	34,207,159
Unrestricted	<u>(308,614,186)</u>
Total net position	<u>\$ 116,591,959</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instructional Services:					
Instruction	\$ 282,434,882	\$ 987,832	\$ 62,027,500	\$ (2,820,525)	\$ (222,240,075)
Instruction-Related Services:					
Supervision of instruction	31,818,500	367,641	12,042,024	-	(19,408,835)
Instructional library, media and technology	5,381,525	659	113,145	-	(5,267,721)
School site administration	28,387,243	354,474	1,400,270	-	(26,632,499)
Pupil Support Services:					
Home-to-school transportation	4,820,428	-	-	-	(4,820,428)
Food services	25,700,195	780,630	22,501,680	-	(2,417,885)
All other pupil services	29,495,572	23,214	6,540,276	-	(22,932,082)
General Administration Services:					
Data processing services	9,490,025	-	-	-	(9,490,025)
Other general administration	10,800,007	86,543	4,962,133	-	(5,751,331)
Plant services	49,853,563	288,613	1,117,991	-	(48,446,959)
Ancillary services	29,012	963	50	-	(27,999)
Community services	26,860	-	835	-	(26,025)
Enterprise activities	45,489	-	-	-	(45,489)
Interest on long-term debt	10,242,350	-	-	-	(10,242,350)
Other outgo	1,533,268	6,470,721	339,530	-	5,276,983
Depreciation (unallocated)	23,808,333	-	-	-	(23,808,333)
Total Governmental Activities	\$ 513,867,252	\$ 9,361,290	\$ 111,045,434	\$ (2,820,525)	(396,281,053)
General Revenues:					
Property taxes					44,972,631
Federal and state aid not restricted to specific purpose					366,541,131
Interest and investment earnings					1,533,351
Interagency revenues					327,477
Miscellaneous					9,667,718
Total general revenues					423,042,308
Change in net position					26,761,255
Net position - July 1, 2016, as originally stated					172,906,436
Adjustments for restatements (Note 14)					(83,075,732)
Net position - July 1, 2016, as restated					89,830,704
Net position - June 30, 2017					\$ 116,591,959

FONTANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 192,407,887	\$ 8,612,143	\$ 64,532,753	\$ 265,552,783
Investments	-	-	20,155,126	20,155,126
Accounts receivable	13,797,230	5,052,141	1,856,001	20,705,372
Due from other funds	4,723,926	1,388	9,052,645	13,777,959
Inventories	-	84,070	-	84,070
Prepaid expenditures	1,139,206	-	-	1,139,206
Total Assets	\$ 212,068,249	\$ 13,749,742	\$ 95,596,525	\$ 321,414,516
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 47,064,077	\$ 628,528	\$ 916,301	\$ 48,608,906
Due to other funds	11,451,523	3,212,292	2,238,075	16,901,890
Unearned revenue	5,045,566	-	300,599	5,346,165
Total Liabilities	63,561,166	3,840,820	3,454,975	70,856,961
Fund Balances				
Nonspendable	1,239,206	94,060	-	1,333,266
Restricted	23,268,984	9,814,862	91,048,666	124,132,512
Committed	-	-	820,236	820,236
Assigned	11,925,981	-	272,648	12,198,629
Unassigned	112,072,912	-	-	112,072,912
Total Fund Balances	148,507,083	9,908,922	92,141,550	250,557,555
Total Liabilities and Fund Balances	\$ 212,068,249	\$ 13,749,742	\$ 95,596,525	\$ 321,414,516

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2017

Total fund balances - governmental funds \$ 250,557,555

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:	863,215,847	
Accumulated depreciation:	<u>(311,933,338)</u>	
Net:		551,282,509

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:

6,957,103

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:

(3,294,579)

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	238,333,127	
Certificates of participation payable	33,000,281	
QZAB bonds payable	1,481,358	
Capital lease payable	834,773	
Compensated absences	2,139,120	
Other postemployment benefits payable	<u>122,194,704</u>	
Total		(397,983,363)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.

(393,158,092)

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	117,756,882	
Deferred inflows of resources relating to pensions	<u>(19,985,203)</u>	
Net:		97,771,679

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:

4,459,147

Total net position - governmental activities \$ 116,591,959

FONTANA UNIFIED SCHOOL DISTRICT

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017*

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 376,984,719	\$ -	\$ 22,250	\$ 377,006,969
Federal sources	24,262,625	22,705,512	1,201,398	48,169,535
Other state sources	62,621,376	1,523,301	4,236,074	68,380,751
Other local sources	6,719,476	929,626	30,640,766	38,289,868
Total Revenues	<u>470,588,196</u>	<u>25,158,439</u>	<u>36,100,488</u>	<u>531,847,123</u>
EXPENDITURES				
Current:				
Instruction	273,466,697	-	7,283,579	280,750,276
Instruction-related services:				
Supervision of instruction	30,533,328	-	1,695,523	32,228,851
Instructional library, media and technology	4,194,079	-	-	4,194,079
School site administration	27,345,529	-	439,992	27,785,521
Pupil support services:				
Home-to-school transportation	4,834,970	-	-	4,834,970
Food services	194,120	25,412,133	17,876	25,624,129
All other pupil services	28,511,409	-	231,780	28,743,189
Ancillary services	29,012	-	-	29,012
Community services	26,143	-	-	26,143
General administration services:				
Data processing services	9,465,698	-	-	9,465,698
Other general administration	11,418,321	-	-	11,418,321
Plant services	48,758,075	36,554	1,704,059	50,498,688
Transfers of indirect costs	(1,119,443)	830,291	289,152	-
Intergovernmental	638,607	-	-	638,607
Capital outlay	5,385,369	1,270,384	3,864,992	10,520,745
Debt service:				
Issuance costs	-	-	261	261
Principal	59,627	-	10,663,802	10,723,429
Interest	-	-	8,248,447	8,248,447
Total Expenditures	<u>443,741,541</u>	<u>27,549,362</u>	<u>34,439,463</u>	<u>505,730,366</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>26,846,655</u>	<u>(2,390,923)</u>	<u>1,661,025</u>	<u>26,116,757</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	694	8,438,025	8,438,719
Interfund transfers out	(8,438,719)	-	-	(8,438,719)
Proceeds from capital lease	894,400	-	-	894,400
Total Other Financing Sources and Uses	<u>(7,544,319)</u>	<u>694</u>	<u>8,438,025</u>	<u>894,400</u>
Net Change in Fund Balances	<u>19,302,336</u>	<u>(2,390,229)</u>	<u>10,099,050</u>	<u>27,011,157</u>
Fund Balances, July 1, 2016	134,708,939	12,299,151	82,042,500	229,050,590
Adjustment for Restatement (Note 14 b.)	<u>(5,504,192)</u>	<u>-</u>	<u>-</u>	<u>(5,504,192)</u>
Fund Balances, July 1, 2016, as restated	<u>129,204,747</u>	<u>12,299,151</u>	<u>82,042,500</u>	<u>223,546,398</u>
Fund Balances, June 30, 2017	<u>\$ 148,507,083</u>	<u>\$ 9,908,922</u>	<u>\$ 92,141,550</u>	<u>\$ 250,557,555</u>

FONTANA UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds

Amounts reported for governmental <i>activities</i> in the statement of activities are different because:	\$ 27,011,157
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:	
Expenditures for capital outlay	10,614,505
Depreciation expense	<u>(23,808,333)</u>
Net:	(13,193,828)
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:	2,106,471
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:	(58,956)
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:	10,733,429
In governmental funds, proceeds from capital leases are reported as other financing sources. In the government-wide statements, proceeds from capital leases are reported as a liability. Proceeds from capital leases for the year were::	(894,400)
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 amortized during the year were:	(491,455)
In governmental funds, if debt is issued at a premium or at a discount, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was:	1,484,852
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:	(2,746,644)
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:	(250,658)
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:	(52,282)
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:	(11,756,101)
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:	13,972,114
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>897,556</u>
Change in net position of governmental activities	<u>\$ 26,761,255</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2017

	Governmental Activities Internal Service Fund
ASSETS	
Cash	\$ 7,017,530
Accounts receivable	36,309
Due from other funds	<u>3,175,805</u>
Total assets	<u>10,229,644</u>
LIABILITIES	
Estimated liability for open claims and IBNRs	5,585,244
Accounts payable	133,379
Due to other funds	<u>51,874</u>
Total liabilities	<u>5,770,497</u>
NET POSITION	
Restricted	<u><u>\$ 4,459,147</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, 2017*

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 3,178,520
Other local revenues	<u>22,287</u>
Total operating revenues	<u>3,200,807</u>
OPERATING EXPENSES	
Payments for personnel costs	313,837
Payments for materials and supplies	9,251
Payments for claims and other operating expenses	<u>2,042,140</u>
Total operating expenses	<u>2,365,228</u>
OPERATING INCOME (LOSS)	835,579
NON-OPERATING REVENUES	
Interest income	<u>61,977</u>
Change in net position	897,556
Net position, July 1, 2016	<u>3,561,591</u>
Net position, June 30, 2017	<u><u>\$ 4,459,147</u></u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities Internal Service Fund
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Received from in-district premiums	\$ 3,039,516
Payments to employees and fringe benefits	(341,904)
Payments to vendors and suppliers	5,716
Payments on insurance claims	(1,998,778)
Other receipts (payments)	8,427
Net cash provided (used) by operating activities	<u>712,977</u>
 <i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Investment income	<u>51,381</u>
Net increase (decrease) in cash and cash equivalents	764,358
Cash and cash equivalents, July 1, 2016	6,253,172
Cash and cash equivalents, June 30, 2017	<u>\$ 7,017,530</u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	<u>\$ 835,579</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets, liabilities, and deferred outflows of resources:	
Receivables, net	(13,860)
Due from other funds	(139,004)
Estimated liability for open claims and IBNRs	43,362
Accounts payable and accrued liabilities	14,967
Due to other funds	(28,067)
Net cash provided (used) by operating activities	<u>\$ 712,977</u>

FONTANA UNIFIED SCHOOL DISTRICT*Statement of Fiduciary Net Position**June 30, 2017*

	<u>Agency Funds</u>	<u>Trust Fund</u>	
	<u>Student Body Funds</u>	<u>Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,555,719	\$ 2	\$ 1,555,721
Investments	-	33,216,045	33,216,045
Scholarship funds	73,931	-	73,931
Accounts receivable	24,975	-	24,975
Inventories - supplies and materials	87,041	-	87,041
Miscellaneous	5,114	-	5,114
Total assets	<u>\$ 1,746,780</u>	<u>33,216,047</u>	<u>34,962,827</u>
LIABILITIES			
Accounts payable	\$ 171,906	-	171,906
Due to student groups	1,574,874	-	1,574,874
Total liabilities	<u>\$ 1,746,780</u>	<u>-</u>	<u>1,746,780</u>
NET POSITION			
Restricted for postemployment benefits		<u>\$ 33,216,047</u>	<u>\$ 33,216,047</u>

FONTANA UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2017

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 719,647
Increase in fair value of investments	1,233,449
In-district contributions	<u>10,270,681</u>
Total Additions	12,223,777
DEDUCTIONS	
Operating expenses	<u>172,676</u>
Change in net position	<u>12,051,101</u>
Net position as originally stated	15,660,754
Adjustment for restatement (Note 14b.)	<u>5,504,192</u>
Net position - July 1, 2016	<u>21,164,946</u>
Net position - June 30, 2017	<u><u>\$ 33,216,047</u></u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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.

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.

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, 2017

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, 2017

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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 qualifies for reporting in this category. 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".

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

7. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Fontana Unified School District Retiree Benefits Plan (“the Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

8. 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.

9. 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Fund Balances (continued)

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.

10. Net Position

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

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

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

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Minimum Fund Balance Policy

The District has established and maintains reservations of fund balance in accordance with GASB No. 54. 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.

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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)*

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

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

3. Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)*

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

4. Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

5. Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2017, are reported at fair value and consisted of the following:

	Rating	Governmental Activities			Fiduciary Funds
		Governmental Funds	Proprietary Fund	Total	
Pooled Funds:					
Cash in County Treasury		\$ 265,442,793	\$ 6,867,530	\$ 272,310,323	\$ 2
Deposits:					
Cash on hand and in banks		-	-	-	1,629,650
Cash in revolving fund		109,990	150,000	259,990	-
Total Deposits		109,990	150,000	259,990	1,629,650
Total Cash		\$ 265,552,783	\$ 7,017,530	\$ 272,570,313	\$ 1,629,652
Investments:					
US Bank Money Market	A-1+	\$ 20,155,126	\$ -	\$ 20,155,126	\$ -
Benefit-Trust:					
Fixed Income:					
Blackrock Total Return-K					2,973,908
Guggenheim Investments Macro					2,957,615
Guggenheim Investments Bond Fund					2,978,018
Hartford World Bond-Y					1,318,872
Legg Mason BW Global					1,018,451
Legg Mason BW Alternative Credit					997,244
Prudential Funds Total Return Bond CL Q					2,980,363
Western Asset Core Plus Bond					2,992,691
Domestic Equities:					
Alger Funds Small Cap Focus Z					1,035,408
Alger Funds Spectra Z					1,667,856
Brandes Funds Intl. Small Cap					661,484
Brandes Funds Emerging Markets					491,855
Columbia Contrarian Core					1,332,023
Oakmark Select Fund					1,320,575
Hartford Funds Midcap Class Y					679,531
Undiscovered Managers Behavioral Value					653,787
International Equities:					
Brandes Funds International Equity-R6					995,110
Hartford International Value-Y					1,013,722
Clearbridge International CM Cap- IS					679,216
American Funds New Perspective F2					681,318
American Funds New World F2					504,291
Thornburg Investment Income Builder I					987,138
Real Estate:					
Cohen and Steers Real Estate Securities-Z					1,308,754
Prudential Funds Global Real Estate CL Q					986,815
Total Investments					\$ 33,216,045

Investment security ratings reported as of June 30, 2017, are defined by Standard and Poors.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, 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, 2017, \$1,488,254 of the District's bank balance was exposed to custodial credit risk because it was uninsured. However, it was 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, 2017***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities of investments held at June 30, 2017, consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
US Bank Money Market	\$ 20,155,126	\$ 20,155,126	\$ -
Benefit-Trust:			
Fixed Income:			
Blackrock Total Return-K	2,973,908	2,973,908	-
Guggenheim Investments Macro	2,957,615	2,957,615	-
Guggenheim Investments Bond Fund	2,978,018	2,978,018	-
Hartford World Bond-Y	1,318,872	1,318,872	-
Legg Mason BW Global	1,018,451	1,018,451	-
Legg Mason BW Alternative Credit	997,244	997,244	-
Prudential Funds Total Return Bond CL Q	2,980,363	2,980,363	-
Western Asset Core Plus Bond	2,992,691	2,992,691	-
Domestic Equities:			
Alger Funds Small Cap Focus Z	1,035,408	1,035,408	-
Alger Funds Spectra Z	1,667,856	1,667,856	-
Brandes Funds Intl. Small Cap	661,484	661,484	-
Brandes Funds Emerging Markets	491,855	491,855	-
Columbia Contrarian Core	1,332,023	1,332,023	-
Oakmark Select Fund	1,320,575	1,320,575	-
Hartford Funds Midcap Class Y	679,531	679,531	-
Undiscovered Managers Behavioral Value	653,787	653,787	-
International Equities:			
Brandes Funds International Equity-R6	995,110	995,110	-
Hartford International Value-Y	1,013,722	1,013,722	-
Clearbridge International CM Cap- IS	679,216	679,216	-
American Funds New Perspective F2	681,318	681,318	-
American Funds New World F2	504,291	504,291	-
Thornburg Investment Income Builder I	987,138	987,138	-
Real Estate:			
Cohen and Steers Real Estate Securities-Z	1,308,754	1,308,754	-
Prudential Funds Global Real Estate CL Q	986,815	986,815	-
Total	<u>\$ 53,371,171</u>	<u>\$ 53,371,171</u>	<u>\$ -</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, all investments represented governmental securities, mutual funds, and other equities 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, 2017, the District had the following investment that represented more than five percent of the District's net investments:

Concentration of Credit Risk

U.S. Bank Money Market	38%
Blackrock Total Return-K	6%
Guggenheim Investments Macro	6%
Guggenheim Investments Bond Fund	6%
Prudential Funds Total Return Bond CL Q	6%
Western Asset Core Plus Bond	6%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consisted of the following:

	Governmental Funds				Proprietary Fund
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Totals	Self-Insurance Fund
Federal Government:					
Categorical aid programs	\$ 10,300,756	\$ 4,671,019	\$ 308,617	\$ 15,280,392	\$ -
State Government:					
Lottery	1,630,424	-	-	1,630,424	-
Special education	518,425	-	-	518,425	-
Categorical aid programs	170,948	281,185	981,791	1,433,924	-
Local:					
Interest	504,900	20,366	133,279	658,545	22,449
Other local resources	671,777	79,571	432,314	1,183,662	13,860
Total	<u>\$ 13,797,230</u>	<u>\$ 5,052,141</u>	<u>\$ 1,856,001</u>	<u>\$ 20,705,372</u>	<u>\$ 36,309</u>

FONTANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2017, consisted of the following:

	Due From Other Funds					Total
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Governmental Funds Total	Proprietary Fund	
General Fund	\$ -	\$ 786	\$ 8,451,304	\$ 8,452,090	\$ 2,999,433	\$ 11,451,523
Cafeteria Fund	3,109,139	-	-	3,109,139	103,153	3,212,292
Non-Major Governmental Funds	1,564,254	602	600,000	2,164,856	73,219	2,238,075
Self-Insurance Fund	50,533	-	1,341	51,874	-	51,874
Total	<u>\$ 4,723,926</u>	<u>\$ 1,388</u>	<u>\$ 9,052,645</u>	<u>\$ 13,777,959</u>	<u>\$ 3,175,805</u>	<u>\$ 16,953,764</u>

General Fund due to Adult Education Fund for general education students enrolled in adult education programs	\$ 22,250
General Fund due to Cafeteria Fund for catering and bad debt for unallowable expenses	786
General Fund due to Special Reserve Fund for Capital Outlay Projects for RDA Funds Distribution	8,429,054
General Fund due to Self-Insurance Fund for worker's compensation	2,999,433
Adult Education Fund due to General fund for printing, vehicle repair, Adult Ed Cal Works, AEB1 and AEB2 Adult Ed Block Grants, supplies, postage and suspense clearing	189,704
Adult Education Fund due to Special Reserve Fund for Capital Outlay Projects for temporary borrowing to meet cash flow needs	600,000
Adult Education Fund due to Self-Insurance Fund for worker's compensation	14,356
Child Development Fund due to General Fund for printing costs, envelopes, postage, payroll adjustments, and indirect cost allocations	1,170,124
Child Development Fund due to Cafeteria Fund for catering	602
Child Development Fund due to Self-Insurance Fund for worker's compensation	58,863
Cafeteria Fund due to General Fund for vehicle repair, computer user fees, fuel charges, printing, indirect cost allocations and suspense clearing	3,109,139
Cafeteria Fund due to Self-Insurance Fund for worker's compensation	103,153
Capital Facilities Fund due to General Fund for indirect costs	204,426
Self-Insurance Fund due to General Fund for worker's compensation	50,533
Self-Insurance Fund due to Child Development Fund for worker's compensation	1,341
Total	<u>\$ 16,953,764</u>

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2017, consisted of the following:

General Fund transfer to Child Development Fund to reimburse for special education enrollments in early education program	\$ 8,971
General Fund transfer to Cafeteria Fund for bad debt for unallowable expenses	694
General Fund transfer to Special Reserve Fund for Capital Outlay Projects for RDA Funds Distribution	8,429,054
Total	<u>\$ 8,438,719</u>

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017*

NOTE 5 - FUND BALANCES

At June 30, 2017, fund balances of the District's governmental funds were classified as follows:

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 100,000	\$ 9,990	\$ -	\$ 109,990
Inventories	-	84,070	-	84,070
Prepaid expenditures	1,139,206	-	-	1,139,206
Total Nonspendable	<u>1,239,206</u>	<u>94,060</u>	<u>-</u>	<u>1,333,266</u>
Restricted:				
Categorical programs	23,268,984	-	919,418	24,188,402
Adult education program	-	-	109,834	109,834
Food service program	-	9,814,862	-	9,814,862
Capital projects	-	-	71,790,408	71,790,408
Debt service	-	-	18,229,006	18,229,006
Total Restricted	<u>23,268,984</u>	<u>9,814,862</u>	<u>91,048,666</u>	<u>124,132,512</u>
Committed:				
Deferred maintenance program	-	-	820,236	820,236
Total Committed	<u>-</u>	<u>-</u>	<u>820,236</u>	<u>820,236</u>
Assigned:				
Other assignments	11,925,981	-	272,648	12,198,629
Total Assigned	<u>11,925,981</u>	<u>-</u>	<u>272,648</u>	<u>12,198,629</u>
Unassigned:				
Remaining unassigned balances	112,072,912	-	-	112,072,912
Total Unassigned	<u>112,072,912</u>	<u>-</u>	<u>-</u>	<u>112,072,912</u>
Total	<u>\$ 148,507,083</u>	<u>\$ 9,908,922</u>	<u>\$ 92,141,550</u>	<u>\$ 250,557,555</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 58,877,302	\$ -	\$ -	\$ 58,877,302
Construction in progress	36,707,641	808,137	26,228,734	11,287,044
Total capital assets not being depreciated	<u>95,584,943</u>	<u>808,137</u>	<u>26,228,734</u>	<u>70,164,346</u>
Capital assets being depreciated:				
Improvement of sites	69,334,077	77,839	23,969	69,387,947
Buildings	627,086,311	32,224,850	-	659,311,161
Equipment	59,508,345	5,838,884	994,836	64,352,393
Total capital assets being depreciated	<u>755,928,733</u>	<u>38,141,573</u>	<u>1,018,805</u>	<u>793,051,501</u>
Accumulated depreciation for:				
Improvement of sites	(39,116,443)	(2,275,711)	(23,969)	(41,368,185)
Buildings	(209,122,018)	(15,766,160)	-	(224,888,178)
Equipment	(40,846,393)	(5,766,462)	(935,880)	(45,676,975)
Total accumulated depreciation	<u>(289,084,854)</u>	<u>(23,808,333)</u>	<u>(959,849)</u>	<u>(311,933,338)</u>
Total capital assets being depreciated, net	<u>466,843,879</u>	<u>14,333,240</u>	<u>58,956</u>	<u>481,118,163</u>
Governmental activity capital assets, net	<u>\$ 562,428,822</u>	<u>\$ 15,141,377</u>	<u>\$ 26,287,690</u>	<u>\$ 551,282,509</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:					
Principal repayments	\$ 206,850,234	\$ -	\$ 8,581,175	\$ 198,269,059	\$ 8,711,800
Accreted interest component	20,504,002	4,721,425	1,878,825	23,346,602	1,928,200
Unamortized issuance premium	18,002,150	-	1,284,684	16,717,466	1,284,684
Total - Bonds	<u>245,356,386</u>	<u>4,721,425</u>	<u>11,744,684</u>	<u>238,333,127</u>	<u>11,924,684</u>
Certificates of Participation:					
Principal repayments	31,045,000	-	1,845,000	29,200,000	2,830,000
Unamortized issuance premium	4,000,449	-	200,168	3,800,281	200,168
Total - Certificates of Participation	<u>35,045,449</u>	<u>-</u>	<u>2,045,168</u>	<u>33,000,281</u>	<u>3,030,168</u>
Qualified Zone Academy Bond					
Scheduled deposits	1,238,138	-	247,627	990,511	247,627
Accumulated interest	586,803	-	95,956	490,847	106,345
Total - Qualified Zone Academy Bond	<u>1,824,941</u>	<u>-</u>	<u>343,583</u>	<u>1,481,358</u>	<u>353,972</u>
Compensated Absences	2,086,838	52,282	-	2,139,120	-
Capital leases	-	894,400	59,627	834,773	178,880
Other Postemployment Benefits	136,166,818	-	13,972,114	122,194,704	-
Totals	<u>\$ 420,480,432</u>	<u>\$ 5,668,107</u>	<u>\$ 28,165,176</u>	<u>\$ 397,983,363</u>	<u>\$ 15,487,704</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. Capital lease payments are made from the General Fund. Accumulated vacation and pension costs will be paid for by the fund for which the employee worked.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

Election of 2006

On June 6, 2006, an election was held where the registered voters in the District approved by a fifty-five percent majority the issuance and sale of \$275 million principal amount of general obligation bonds. The bonds are being issued to acquire, construct, renovate and equip certain District facilities. As of June 30, 2017, 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 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, 2017, the principal balance outstanding on the previously defeased debt was \$50,975,000.

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, 2017 of \$5,350,307 remain to be amortized.

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

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017
Refunding Bonds								
1997R	6/18/1997	2018	4.40%-5.95%	\$ 18,670,227	\$ 1,739,885	\$ -	\$ 621,175	\$ 1,118,710
2009R	2/11/2009	2022	3.0% - 5.25%	18,110,000	10,175,000	-	1,410,000	8,765,000
2012R	10/25/2012	2031	2.0%-5.0%	78,115,000	72,910,000	-	2,445,000	70,465,000
2014R	5/22/2014	2031	2.25%-5.0%	12,975,000	9,810,000	-	1,650,000	8,160,000
2016R	6/1/2016	2029	2.0%-5.0%	49,910,000	49,910,000	-	1,005,000	48,905,000
Subtotal Refunding Bonds					144,544,885	-	7,131,175	137,413,710
Measure C (2006)								
2006B	3/11/2008	2033	3.0% - 5.25%	70,585,909	15,045,909	-	1,450,000	13,595,909
2006C	10/25/2012	2044	5.0%-5.75%	47,259,440	47,259,440	-	-	47,259,440
Subtotal Measure C					62,305,349	-	1,450,000	60,855,349
Total					\$ 206,850,234	\$ -	\$ 8,581,175	\$ 198,269,059
Accreted Interest								
				1997R	\$ 4,027,322	\$ 349,907	\$ 1,878,825	\$ 2,498,404
				2006B	7,233,326	1,195,051	-	8,428,377
				2006C	9,243,354	3,176,467	-	12,419,821
				Total	\$ 20,504,002	\$ 4,721,425	\$ 1,878,825	\$ 23,346,602

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize general obligation bonds outstanding at June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
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
2021-22	9,915,000	4,050,106	13,965,106
2022-27	55,145,000	13,154,519	68,299,519
2027-32	47,682,122	27,898,694	75,580,816
2032-37	20,855,772	58,544,228	79,400,000
2037-42	20,043,721	69,756,279	89,800,000
2042-45	7,558,734	35,041,266	42,600,000
Total	<u>\$ 198,269,059</u>	<u>\$ 232,813,481</u>	<u>\$ 431,082,540</u>

B. Certificates of Participation

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

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, 2017 of \$1,606,796 remain to be amortized for this refunding. As of June 30, 2017, the principal balance outstanding on the defeased debt amounted to \$36,480,000.

FONTANA UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2017***NOTE 8 – GENERAL LONG-TERM DEBT (continued)****B. Certificates of Participation (continued)**

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
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
2021-22	1,595,000	879,825	2,474,825
2022-27	8,935,000	3,154,325	12,089,325
2027-32	7,305,000	1,331,200	8,636,200
2032-36	4,275,000	258,350	4,533,350
Total	<u>\$ 29,200,000</u>	<u>\$ 9,908,075</u>	<u>\$ 39,108,075</u>

C. Qualified Zone Academy Bond

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

Lease payments will be required as follows:

Fiscal Year	Scheduled Deposit	Accumulated Interest	Total
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>\$ 990,511</u>	<u>\$ 490,847</u>	<u>\$ 1,481,358</u>

D. Capital Leases

The District agreed to a capital lease of 29 vehicles on February 1, 2017, for a value of \$894,400 from Enterprise Fleet Management. Remaining lease payments will be required as follows:

Fiscal Year	Total
2017-18	\$ 178,880
2018-19	178,880
2019-20	178,880
2020-21	178,880
2021-22	119,253
	<u>\$ 834,773</u>

The District will receive no sublease revenues nor pay any contingent rentals for the equipment.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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. Audited information is available directly from the JPA's.

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, 2017, the District had commitments with respect to unfinished capital projects of approximately \$9.0 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, 2017.

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, 2017, 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 2016-17, 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.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – RISK MANAGEMENT (continued)

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District's workers' compensation from July 1, 2015 to June 30, 2017:

	Workers' Compensation
Liability Balance, July 1, 2015	\$ 5,541,156
Claims and changes in estimates	2,043,852
Claims payments	<u>(2,043,126)</u>
Liability Balance, June 30, 2016	5,541,882
Claims and changes in estimates	2,085,502
Claims payments	<u>(2,042,140)</u>
Liability Balance, June 30, 2017	<u>\$ 5,585,244</u>
Assets available to pay claims at June 30, 2017	<u>\$ 10,229,644</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, 2017

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% 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% 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% simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2% 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% of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1% 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 10.25% and plan members under *2% at 62* were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% 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, 2017***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 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Employer contributions	\$ 24,314,141	\$ 9,403,240
Employer contributions paid by State	\$ 14,443,795	-
Employee contributions paid by employer	\$ -	-

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

As of June 30, 2017, 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	\$ 293,598,030
CalPERS	\$ 99,560,062
Total Net Pension Liability	<u>\$ 393,158,092</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, 2016, 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, 2015, rolled forward to June 30, 2016, 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, 2015 and 2016, was as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Proportion - June 30, 2015	0.3620%	0.4889%
Proportion - June 30, 2016	0.3630%	0.5041%
Change - Increase (Decrease)	<u>0.0010%</u>	<u>0.0152%</u>

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, the District recognized pension expense of \$47,222,081. At June 30, 2017, 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	\$ 33,717,381	\$ -
Differences between actual and expected experience	4,282,037	(7,161,990)
Changes in assumptions	-	(2,991,187)
Adjustment due to differences in proportions	31,136,018	-
Net differences between projected and actual earnings on plan investments	48,621,446	(9,832,026)
	<u>\$ 117,756,882</u>	<u>\$ (19,985,203)</u>

The total amount of \$33,717,381 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
2018	\$ 10,844,101
2019	11,991,431
2020	16,188,792
2021	8,004,224
2022	(917,517)
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
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, 2017

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, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60%. 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%) 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%. 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, 2017

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, 2016.

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%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	100%	100%		

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	\$ 422,553,780	\$ 148,544,167
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 293,598,030	\$ 99,560,062
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 186,494,880	\$ 58,771,155

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$2,887,283 and \$349,521 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2017.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

Plan Administration

The Futuris Public Entity Investment Trust (“the Trust”) administers the Fontana Unified School District Retiree Benefits Plan (“the Plan”) – a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time certificated and classified employees of the District.

The District’s governing board delegates investment authority to a Retirement Board of Authority. The governing board of the District is authorized to make decisions for the Plan. The function of the Retirement Board of Authority is similar to that of a Plan Committee who is authorized to carry out certain policies as determined under the Plan. In compliance with the Government Code, the Board would typically consist of the Treasurer of the Agency and other appropriate individuals designated by the Governing Board or as updated by the Retirement Board of Authority.

The Retirement Board of Authority approves the Investment Policy Statement (IPS), which dictates fixed investment options, risk tolerance strategies and asset class investing. The Retirement Board of Authority can reduce its legal liability for investment risk and retain Government Code immunity and indemnifications if they appropriately delegate authority to a qualified investment advisor/manager and if they monitor the performance of the investment advisor/manager. Further, a Registered Investment Advisor (RIA) is under the direction of the Discretionary Trustee, which provides additional layers of safety and responsibility.

Plan membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	582
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>3,675</u>
Total	<u><u>4,257</u></u>

Benefits provided

The Plan provides medical, dental, and vision benefits for retirees. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. Trust documents grant the authority to establish and amend the benefit terms to the Trust Board of Authority.

Contributions

The Trust provides a uniform method of investing contributions and earnings of all contributed amounts between funds deposited within the Benefit Fund or the General Fund, as those terms are defined within the Trust. The Trust is funded primarily by contributions made by the employer, but also may include other contributions made by any participant as determined necessary and appropriate under applicable circumstances. These contributions shall be remitted to the Trust on a discretionary basis. Plan members are not required to contribute to the plan.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Investments

Investment policy

The Board of Authority (the “BOA”) is directly responsible for the selection and ongoing evaluation of investments and/or investment managers in accordance with applicable laws and regulations. The BOA has appointed a third-party, Benefit Trust Company as Discretionary Trustee, as Trust asset custodian. The trustee is expected to administer the assets of the trust in such a manner that the investments are diversified among a broad range of investment alternatives with the objective of preservation and protection of the Trust’s capital. The BOA has determined that the Benefit Fund shall be divided into two investment funds. The first seeks to achieve a target net rate of return of 6% for long-term, and the second seeks a target net rate of return of 4.5% for short-term. The allocation of assets will be such that not more than 5% of the Trust assets shall be invested in any single equity issue.

Concentrations

The Plan held investments other than those issued or explicitly guaranteed by the U.S. government that represent 5% or more of the OPEB plan’s fiduciary net position as follows:

Mutual Fund - Domestic Equity	23.6%
Mutual Fund - Fixed Income	54.9%
Mutual Fund - International Equity	14.6%
Mutual Fund - Real Estate	6.9%

Rate of return

For the fiscal year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 6.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Changes in the Net OPEB Liability of the District

The changes in the net OPEB liability of the District at June 30, 2017 were as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2016	\$ 147,500,746	\$ 11,333,928	\$ 136,166,818
Changes for the year:			
Service cost	5,871,780	-	5,871,780
Interest	8,532,314	-	8,532,314
Employer contributions	-	26,595,788	(26,595,788)
Actual investment income	-	1,953,096	(1,953,096)
Administrative expense	-	(172,676)	172,676
Benefit payments	(6,494,091)	(6,494,091)	-
Net changes	7,910,003	21,882,117	(13,972,114)
Balance at June 30, 2017	\$ 155,410,749	\$ 33,216,045	\$ 122,194,704

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Net OPEB Liability of the District (continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Investment rate of return	5.80 percent
Healthcare cost trend rates	4.00 percent

Following are the tables the mortality assumptions are based upon.

2009 CalSTRS Mortality

The mortality assumptions are based on the 2009 CalSTRS Mortality table created by CalSTRS. CalSTRS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

2014 CalPERS Retired and Active Mortality for Safety and Miscellaneous Employees

The mortality assumptions are based on the 2014 CalPERS Retiree and Active Mortality for Safety and Miscellaneous Employees tables created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Following are the tables the retirement and turnover assumptions are based upon.

2009 CalSTRS Retirement Rates

The retirement assumptions are based on the 2009 CalSTRS Retirement Rates table created by CalSTRS. CalSTRS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalPERS 3% @ 55 Rates for Sworn Police

2009 CalPERS Retirement Rates for School Employees

2009 CalPERS 2% @ 60 Rates for Miscellaneous Employees

The retirement assumptions are based on the 2009 CalPERS Retirement Rates tables created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalSTRS Termination Rates

The turnover assumptions are based on the 2009 CalSTRS Termination Rates table created by CalSTRS. CalSTRS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Net OPEB Liability of the District (continued)

2009 CalPERS Termination Rates for Sworn Police and School Employees

The turnover assumptions are based on the 2009 CalPERS Termination Rates for Sworn Police and School Employees tables created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current healthcare cost trend rates:

	1% Decrease (3%)	Healthcare Cost Trend Rates (4%)	1% Increase (5%)
Net OPEB liability (asset)	\$ 101,810,110	\$ 122,194,704	\$ 148,549,406

Discount Rate

The discount rate used to measure the total OPEB liability was 5.8 percent. We assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. We used historic 5-year real rates of return for each asset class along with our assumed long-term inflation assumption to set the discount rate. We offset the expected investment return by investment expenses of 25 basis points. Following is the assumed asset allocation and assumed rate of return for each:

Asset Class	Percentage of Portfolio	Long-Term Expected Real Rate of Return
Mutual Fund - Domestic Equity	23.6%	7.5%
Mutual Fund - Fixed Income	54.9%	4.5%
Mutual Fund - International Equity	14.6%	7.5%
Mutual Fund - Real Estate	6.9%	7.5%

We looked at rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. We used geometric means.

FONTANA UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Net OPEB Liability of the District (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.8 percent) or 1-percentage-point higher (6.8 percent) than the current discount rate:

	1% Decrease (4.8%)	Discount Rate (5.8%)	1% Increase (6.8%)
Net OPEB liability (asset)	\$ 149,406,487	\$ 122,194,704	\$ 101,686,041

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2017, the District recognized OPEB expense of \$12,623,674. The District has no deferred outflows of resources or deferred inflows of resources related to OPEB as of June 30, 2017.

Payable to the OPEB Plan

At June 30, 2017, the District reported no payables for outstanding contributions to the Plan required for the year ended June 30, 2017.

NOTE 14 – ADJUSTMENTS FOR RESTATEMENTS

- A. Beginning net position on the Statement of Activities has been restated by \$77,571,540 as required under GASB No. 74, which is described in further detail in Note 13.
- B. Beginning net position on the Statement of Activities and beginning fund balances in the General Fund and Trust fund have been restated by \$5,504,192. The restatement is due to an expected contribution from the trust fund to reimburse the General Fund for 2015-16 ‘pay as you go’ OPEB costs. This contribution was accrued, but did not take place because of anticipated changes with the OPEB administrator.

Required Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 375,857,765	\$ 376,984,698	\$ 376,984,719	\$ 21
Federal sources	23,868,694	30,740,624	24,262,625	(6,477,999)
Other state sources	47,857,748	72,487,140	62,621,376	(9,865,764)
Other local sources	1,657,000	4,924,371	6,617,924	1,693,553
Total Revenues	449,241,207	485,136,833	470,486,644	(14,650,189)
Expenditures				
Current:				
Certificated salaries	191,449,739	207,096,665	194,337,244	12,759,421
Classified salaries	58,547,360	63,679,279	61,316,109	2,363,170
Employee benefits	104,761,049	136,663,785	121,327,152	15,336,633
Books and supplies	30,239,815	57,618,260	20,473,414	37,144,846
Services and other operating expenditures	38,380,545	61,707,860	40,429,062	21,278,798
Transfers of indirect costs	(1,145,716)	(1,235,565)	(1,119,443)	(116,122)
Capital outlay	23,651,810	32,165,845	6,279,769	25,886,076
Intergovernmental	40,000	777,941	638,607	139,334
Debt service	-	-	59,627	(59,627)
Total Expenditures	445,924,602	558,474,070	443,741,541	114,732,529
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,316,605	(73,337,237)	26,745,103	100,082,340
Other Financing Sources and Uses				
Proceeds from capital leases	-	-	894,400	894,400
Interfund transfers out	-	(8,438,026)	(8,438,719)	(693)
Total Other Financing Sources and Uses	-	(8,438,026)	(7,544,319)	893,707
Fund Balances, as restated, July 1, 2016	113,928,247	117,380,318	117,380,318	-
Fund Balances, June 30, 2017	\$ 117,244,852	\$ 35,605,055	\$ 136,581,102	\$ 100,976,047

* 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, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Federal sources	\$ 20,106,936	\$ 23,671,917	\$ 22,705,512	\$ (966,405)
Other state sources	1,514,752	1,650,428	1,523,301	(127,127)
Other local sources	1,200,747	1,197,797	929,626	(268,171)
Total Revenues	22,822,435	26,520,142	25,158,439	(1,361,703)
Expenditures				
Current:				
Classified salaries	7,861,946	8,782,362	8,781,903	459
Employee benefits	4,511,020	4,320,878	4,091,342	229,536
Books and supplies	10,503,353	18,129,610	12,193,096	5,936,514
Services and other operating expenditures	920,950	857,351	382,346	475,005
Transfers of indirect costs	835,285	859,550	830,291	29,259
Capital Outlay	2,107,315	2,433,595	1,270,384	1,163,211
Total Expenditures	26,739,869	35,383,346	27,549,362	7,833,984
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,917,434)</u>	<u>(8,863,204)</u>	<u>(2,390,923)</u>	<u>6,472,281</u>
Other Financing Sources and Uses				
Interfund Transfers In	-	694	694	-
Net Change in Fund Balance	(3,917,434)	(8,862,510)	(2,390,229)	6,472,281
Fund Balances, July 1, 2016	12,185,385	12,299,151	12,299,151	-
Fund Balances, June 30, 2017	<u>\$ 8,267,951</u>	<u>\$ 3,436,641</u>	<u>\$ 9,908,922</u>	<u>\$ 6,472,281</u>

FONTANA UNIFIED SCHOOL DISTRICT*Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2017*

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 5,871,780
Interest	8,532,314
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(6,494,091)
Net change in total OPEB liability	<u>7,910,003</u>
Total OPEB liability - beginning	<u>147,500,746</u>
Total OPEB liability - ending	<u><u>\$ 155,410,749</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 26,595,788
Net investment income	1,953,096
Benefit payments	(6,494,091)
Administrative expense	(172,676)
Net change in plan fiduciary net position	<u>21,882,117</u>
Plan fiduciary net position - beginning	<u>11,333,928</u>
Plan fiduciary net position - ending	<u><u>\$ 33,216,045</u></u>
District's net OPEB liability	<u><u>\$ 122,194,704</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>21.37%</u>
Covered-employee payroll	<u>\$ 249,438,580</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>48.99%</u>

Notes to Schedule:

There were no benefits changes or changes of assumptions during the year.

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 OPEB Contributions
For the Fiscal Year Ended June 30, 2017

	<u>2017</u>
Statutorily or contractually required contribution	\$ 26,595,788
Contributions in relation to the statutorily or contractually required contribution	<u>26,595,788</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	<u>\$ 249,438,580</u>
Contributions as a percentage of covered-employee payroll	<u>10.66%</u>

Notes to Schedule:

Valuation date: June 30, 2017

Other information:

The actuary did not calculate an actuarially determined contribution amount. The District contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

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 Investment Returns
For the Fiscal Year Ended June 30, 2017

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	6.69%

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 Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

	Last Ten Fiscal Years*		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.3630%</u>	<u>0.3620%</u>	<u>0.3150%</u>
District's proportionate share of the net pension liability	<u>\$ 293,598,030</u>	<u>\$ 243,712,880</u>	<u>\$ 184,076,550</u>
State's proportionate share of the net pension liability associated with the District	<u>167,164,729</u>	<u>128,896,902</u>	<u>111,154,484</u>
Totals	<u>\$ 460,762,759</u>	<u>\$ 372,609,782</u>	<u>\$ 295,231,034</u>
District's covered-employee payroll	<u>\$ 183,389,842</u>	<u>\$ 165,939,764</u>	<u>\$ 156,232,242</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>160.10%</u>	<u>146.87%</u>	<u>117.82%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.5041%</u>	<u>0.4889%</u>	<u>0.5236%</u>
District's proportionate share of the net pension liability	<u>\$ 99,560,062</u>	<u>\$ 72,064,343</u>	<u>\$ 59,441,349</u>
District's covered-employee payroll	<u>\$ 64,938,111</u>	<u>\$ 57,764,480</u>	<u>\$ 53,355,454</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>153.32%</u>	<u>124.76%</u>	<u>111.41%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

* 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 Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 24,314,141	\$ 19,677,730	\$ 14,735,451
Contributions in relation to the contractually required contribution	<u>24,314,141</u>	<u>19,677,730</u>	<u>14,735,451</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 193,276,161</u>	<u>\$ 183,389,842</u>	<u>\$ 165,939,764</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 9,403,240	\$ 7,693,218	\$ 6,799,457
Contributions in relation to the contractually required contribution	<u>9,403,240</u>	<u>7,693,218</u>	<u>6,799,457</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 67,707,661</u>	<u>\$ 64,938,111</u>	<u>\$ 57,764,480</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

* 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, 2017

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 Changes in the Net OPEB Liability and Related Ratios

This schedule is required by GASB Statement No. 74, and is a 10-year schedule of changes in the net OPEB liability, presenting for each year (1) the beginning and ending balances of the total OPEB liability, the OPEB plan's fiduciary net position, and the net OPEB liability, calculated in conformity with paragraphs 39-54, and (2) the effects on those items during the year of the following, as applicable.

Schedule of OPEB Contributions

This is a 10-year schedule presenting for each year certain information if an actuarially determined contribution is calculated for employers or nonemployer contributing entities. The schedule should identify whether the information relates to the employers, nonemployer contributing entities, or both.

Schedule of Investment Returns

This is a 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on OPEB plan investments calculated as required by paragraph 34b(3).

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 Pension 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.

FONTANA UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

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

There were no changes of assumptions.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

<u>General Fund</u>	<u>Amount</u>
Transfers of indirect costs	\$ 116,122
Debt service	59,627
Interfund transfers out	693

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Supplementary Information

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FONTANA UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2017

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

GOVERNING BOARD

Member	Office	Term Expires
Mary Sandoval	President	2018
Peter Garcia	Vice-President/Clerk	2020
Jason O'Brien	Member	2020
Matt Slowik, MURP, MPA	Member	2018
Vacant ¹	Member	Not Applicable

DISTRICT ADMINISTRATORS

Randal S. Bassett,
Superintendent

Oscar Dueñas,
Associate Superintendent, Student Services

Patrick Kelleher,
Interim Associate Superintendent, Human Resources

Miki Inbody,
Associate Superintendent, Teaching & Learning

Eva Lueck,²
Interim Associate Superintendent, Business Services

¹ At the November 7, 2017 election, Mars Serna was elected to fill this board vacancy.

² The current Associate Superintendent of Business Services is Ryan DiGiulio.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017

	Second Period Report	Annual Report
	Certificate No. (CC868376)	Certificate No. (94902F80)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	10,803.73	10,795.63
Fourth through Sixth	8,691.71	8,680.56
Seventh and Eighth	5,434.87	5,421.97
Ninth through Twelfth	11,526.51	11,442.00
	<hr/>	<hr/>
Total Regular ADA	36,456.82	36,340.16
Special Education-Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	1.52	1.46
Fourth through Sixth	2.56	2.67
Seventh and Eighth	8.58	8.99
Ninth through Twelfth	21.45	21.43
	<hr/>	<hr/>
Total Special Education-Nonpublic, Nonsectarian Schools	34.11	34.55
	<hr/>	<hr/>
Total ADA	<u>36,490.93</u>	<u>36,374.71</u>

FONTANA UNIFIED SCHOOL DISTRICT*Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2017*

<u>Grade Level</u>	<u>Required</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	53,580	180	Complied
Grade 2	50,400	53,580	180	Complied
Grade 3	50,400	53,580	180	Complied
Grade 4	54,000	54,970	180	Complied
Grade 5	54,000	54,970	180	Complied
Grade 6	54,000	54,970	180	Complied
Grade 7	54,000	61,878	180	Complied
Grade 8	54,000	61,878	180	Complied
Grade 9	64,800	65,555	180	Complied
Grade 10	64,800	65,555	180	Complied
Grade 11	64,800	65,555	180	Complied
Grade 12	64,800	65,555	180	Complied

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) 2018 ²	2017	2016 ³	2015
Revenues and other financing sources	\$ 458,270,924	\$ 470,486,644	\$ 464,259,329	\$ 374,049,524
Expenditures	462,044,743	443,741,541	417,103,688	356,160,993
Other uses and transfers out	-	7,544,319	33,186	206,521
Total outgo	462,044,743	451,285,860	417,136,874	356,367,514
Change in fund balance (deficit)	(3,773,819)	19,200,784	47,122,455	17,682,010
Ending fund balance	<u>\$ 132,807,283</u>	<u>\$ 136,581,102</u>	<u>\$ 117,380,318</u>	<u>\$ 75,762,055</u>
Available reserves ¹	<u>\$ 113,522,808</u>	<u>\$ 112,072,912</u>	<u>\$ 49,842,528</u>	<u>\$ 55,586,813</u>
Available reserves as a percentage of total outgo	<u>24.6%</u>	<u>24.8%</u>	<u>11.9%</u>	<u>15.6%</u>
Total long-term debt	<u>\$ 780,590,784</u>	<u>\$ 791,141,455</u>	<u>\$ 658,686,115</u>	<u>\$ 587,649,308</u>
Average daily attendance at P-2	<u>35,901</u>	<u>36,491</u>	<u>37,195</u>	<u>38,106</u>

The General Fund balance has increased overall over the past two years by \$60,819,047. The fiscal year 2017-18 adopted budget projects an decrease of \$3,773,819. 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, but anticipates incurring an operating deficit during the 2017-18 fiscal year. Long-term debt has increased by \$203,492,147 over the past two years.

Average daily attendance has decreased by 1,615 over the past two years. A decrease of 590 ADA is anticipated during fiscal year 2017-18.

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

² Revised Final Budget August, 2017.

³ As restated.

FONTANA UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2017*

*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, 2017

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	\$ 3,283,760	
National School Lunch Program	10.555	13523	14,638,020	
Summer Food Service Program	10.559	13004	342,068	
USDA Donated Foods	10.555	N/A	<u>1,694,155</u>	
Total Child Nutrition Cluster				\$ 19,958,003
Child and Adult Care Food Program	10.558	13393		1,538,101
Team Nutrition Grant	10.574	15332		13,600
Fresh Fruit and Vegetable Program	10.582	14968		<u>13,243</u>
Total U.S. Department of Agriculture				<u>21,522,947</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	484,435	
Adult Basic Education & ESL	84.002A	14508	161,134	
English Literacy & Civics Education	84.002A	14109	<u>26,518</u>	
Total Adult Education Cluster				672,087
No Child Left Behind (NCLB):				
Title I, Part A Cluster:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	13,516,275	
Title I, Part D, Local Delinquent Programs	84.010	14357	<u>2,980</u>	
Total Title I, Part A Cluster				13,519,255
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		7,974
Title II, Part A, Supporting Effective Instruction	84.367	14344		481,125
Title III, Limited English Proficiency	84.365	14346		1,141,251
Carl Perkins Act - Secondary	84.048	14894		380,861
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	6,223,369	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	1,345	
Preschool Grants, Part B, Sec 619	84.173	13430	159,639	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	521,441	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	429,521	
Preschool Staff Development	84.173A	13431	1,303	
Quality Assurance & Focused Monitoring	84.027A	13693	<u>31,722</u>	
Total Special Education Cluster				7,368,340
Early Intervention Grants, Part C	84.181	23761		129,885
Workability II, Transition	84.158	10006		<u>216,181</u>
Total U.S. Department of Education				<u>23,916,959</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Child Care Development Fund Cluster				
Federal Child Care, Center-Based	93.596	13609		124,450
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	590,376	
Medi-Cal Administrative Activities (MAA)	N/A	10060	<u>238,272</u>	
Total Medicaid Cluster				828,648
Direct Federal to Local Program:				
Head Start Cluster:				
Head Start	93.600	10016	119,148	
Early Head Start	93.600	10016	<u>285,713</u>	
Total Head Start Cluster				404,861
Total U.S. Department of Health & Human Services				<u>1,357,959</u>
Total Expenditures of Federal Awards				<u>\$ 46,797,865</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, 2017

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.

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.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2017.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 48,169,535
Differences between Federal Revenues and Expenditures:		
Seamless Summer Food Program	10.559	(222,923)
Child and Adult Care Food Program	10.558	(959,643)
Title II, Principal Administrator Training	84.367	(29,651)
Medi-Cal Billing Option	93.778	(159,453)
Total Schedule of Expenditures of Federal Awards		<u>\$ 46,797,865</u>

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Other Independent Auditors' Reports

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

Board of Education
Fontana Unified School District
Fontana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fontana Unified School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Fontana Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2017.

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

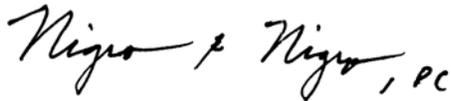
As part of obtaining reasonable assurance about whether Fontana Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2017-001 and 2017-002.

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.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
December 12, 2017



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 2016-17 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, 2017.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of 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 on the following page. 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 2016-17 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 on the following page that could have a direct and material effect on a state 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 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 above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Table with 2 columns: Description, Procedures Performed. Rows include Attendance, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time, Instructional Materials, and Ratio of Administrative Employees to Teachers.

Description	Procedures Performed
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
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
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	No (see below)
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 or course based independent study because the ADA was under the level that requires testing.

Unmodified Opinion on Compliance with State Programs

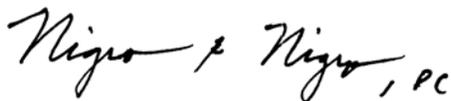
In our opinion, Fontana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Other Matter(s)

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Fontana Unified School District's responses to the compliance 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 in the audit of compliance and, accordingly, we express no opinion on the responses.



Murrieta, California
December 12, 2017



**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, 2017. 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, 2017.

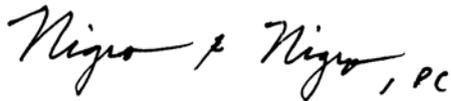
Report on Internal Control Over Compliance

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. 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
December 12, 2017

Findings and Questioned Costs

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FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553,	
<u>10.555, 10.559</u>	<u>Child Nutrition Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,403,936</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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 2016-17.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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).

There were no federal award findings or questioned costs in 2016-17.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2017-001: CALPADS 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: During our testing of the English Learner (EL) and Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted two students who were incorrectly classified as EL or FRPM eligible. One student was classified as an EL student, but did not have evidence supporting the classification. One student was classified as FRPM eligible, but the only application on file was dated after the census date.

Questioned Cost: \$1,972.

Context: Errors appear to be isolated. There were 2 instances noted out of 180 students tested.

Effect: The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes:

School Site:	<u>CALPADS</u>	<u>Adjusted based on FRPM</u>	<u>Adjusted based on EL eligibility</u>	<u>Adjusted Total</u>
Fontana A. B. Miller High	1,855	-	-	1,855
Alder Middle	1,078	-	-	1,078
Beech Avenue Elementary	752	(1)	-	751
Cypress Elementary	708	-	-	708
Fontana High	2,306	-	-	2,306
Fontana Middle	1,123	-	(1)	1,122
Harry S. Truman Middle	1,075	-	-	1,075
Hemlock Elementary	333	-	-	333
Locust Elementary	419	-	-	419
Agregate of remaining schools	<u>23,298</u>	<u>-</u>	<u>-</u>	<u>23,298</u>
District-wide	<u>32,947</u>	<u>(1)</u>	<u>(1)</u>	<u>32,945</u>

The enrollment count of 38,014 was not impacted as a result of the procedures performed.

FONTANA UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2017-001: CALPADS Unduplicated Pupil Counts (40000) (continued)

Recommendation: We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.

Views of Responsible Officials: The District will continue to adopt procedures to address the factors that caused the necessary adjustments 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. The District will also monitor incoming applications for students filing for Free and Reduced Price Meals to ensure that only those received before the census date are reflected as FRPM eligible. 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.

Finding 2017-002: School Accountability Report Card (72000)

Criteria: In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Education Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition: Cypress Elementary listed restrooms 'Fair' on their SARC but they are reported as 'Good' on the corresponding FIT Form. Redwood Elementary listed restrooms as 'Poor' on their SARC but 'Good' on the corresponding FIT.

Context: There were two exceptions out of 10 sites tested.

Cause: The information contained in the Facility Inspection Tool was not compared to the information contained in the School Accountability Report Card for these schools prior to submission and publication.

Effect: Without proper compliance, the public will be misinformed on the status of the schools' facilities. There is no financial impact.

Recommendation: We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public. In addition, the SARCs should be published on an annual basis by February 1st.

Views of Responsible Officials: The District has implemented procedures to ensure that the data reported on the School Accountability Report Card (SARC) for each school site is consistent with that reported on the Facility Inspection Tool (FIT) Form for each school site as required by Education Code Section 33126. In the future, the FIT Form completed for each site will be compared to the data included in the SARC prior to publication.

FONTANA UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2016-001: 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, 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.</p>	50000	We recommend the District continue following the spending plan submitted to the CDE.	Implemented. The District has a spending plan in place with the CDE through 2018.
<i>Finding 2016-002: Unduplicated Pupil Counts</i>	<p>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:</p> <ul style="list-style-type: none"> •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. <p>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.</p>	40000	We recommend that the District take extra care to ensure that all pupils are properly classified on the CALPADS report in the future.	Not Implemented. See Finding 2017-001.



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, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2017, on the financial statements of Fontana Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our testing of cash disbursements, we noted disbursements at various sites were not approved by the District Representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

Recommendation: 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: In our testing of cash receipts, we noted several deposits that lacked sufficient supporting documentation. Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. 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 reconciled to sales.

Recommendation: We recommend that before any events are held, control procedures, such as ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts, should be established that will allow for the reconciliation between cash collected and event sales.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: Through inquiry and testing at *Fontana High*, *Jurupa Hills*, and *Summit High*, we noted textbook fees and AP/PSAT fees were collected and then paid to the District, in effect using the ASB as a pass-through account. ASB accounts are not and should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds.

Recommendation: We recommend that the 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: In our test of cash receipts at *Fontana High*, we noted a deposit that could not be reconciled between the deposit slips and the ticket control sheets. The supporting control worksheet was less than the actual cash deposit per the bank for the event.

Recommendation: We recommend the District investigate the discrepancy as it could be an indication of a weakness in controls.

Observation: During our testing of cash disbursements at *AB Miller High* and *Summit High*, we noted purchases that were sent to personal addresses rather than to the school sites.

Recommendation: We recommend that items purchased for ASB should be shipped directly to the school site rather than a home address to ensure the items are properly received by the ASB and used for the benefit of the students.

Observation: In our testing of cash disbursements at *Jurupa Hills High*, we noted funds used for gift cards. Purchases of items that are to be given away as gifts are in effect a gift of public funds. ASB funds are legally considered public funds because they are raised through the District's tax identification number and under its nontaxable status.

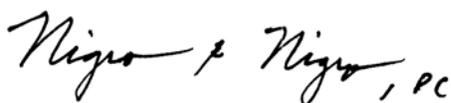
Recommendation: We recommend that ASB funds not be used for items such as gift cards. ASB funds should be used for the purpose for which they are collected and for the benefit of a group of students rather than only one individual.

DISTRICT OFFICE

Observation: During our testing of District cash disbursements, we identified disbursements that had purchase order dates after the date of the invoice, indicating a lack of preapproval of the purchase.

Recommendation: We recommend the District obtain proper approval prior to incurring expenditures and that all documentation is retained in order to substantiate expenditures. This way, it can be determined if expenditures are appropriate and necessary for an educational purpose.

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



Murrieta, California
December 12, 2017